



## AUASB Agenda Paper

<b>Project:</b>	FRC and Audit Quality	<b>Meeting:</b>	8-9 June 2021
<b>Topic:</b>	FRC and Audit Quality	<b>Agenda Item:</b>	2.0
<b>Strategic Objectives:</b>	4	<b>Decision-Making:</b>	For information purposes
<b>ATG Staff:</b>	Anne Waters	<b>Project Status:</b>	Ongoing

### A. Action Required and Decisions to be Made

- 1 The purpose of this agenda item is to provide an update on FRC and Audit Quality matters.

### B. AUASB Technical Group (ATG) Recommendations Overview and Questions for the Board

Question for the Board	ATG Recommendations Overview
N/A	N/A

### C. Matters for Board Consideration

- 2 FRC update – Chair to provide verbal report
- 3 Audit quality
  - (a) PJC Inquiry into Regulation of Auditing in Australia

At the time of finalising this paper the Australian government are yet to respond to the PJC's final report. Representatives from the FRC, ASIC, AASB, AUASB, APESB and AICD have been working together planning on how to implement the recommendations. Refer to attached working paper *PJC Regulation of Auditing in Australia - Status of recommendations* for further information.

- (b) Stakeholder's views on Audit Quality – verbal update

### D. Attachments to the Agenda Paper

Agenda Item	Description
2.1	PJC Regulation of Auditing in Australia - Status of recommendations

**PJC Regulation of Auditing in Australia - Status of recommendations**

	<b>Recommendation</b>	<b>Status</b>
1.	The committee recommends that ASIC: <ul style="list-style-type: none"> <li>- formally review the manner in which it publicly reports the periodic findings of its audit inspection program, giving appropriate consideration to approaches used internationally; and</li> <li>- based on this review, develop and implement, by the end of the 2020–21 reporting period for its audit inspection program, a revised framework for reporting inspection findings, with a focus on the transparency and relative severity of identified audit deficiencies.</li> </ul>	<ul style="list-style-type: none"> <li>- In progress as this was already being considered by ASIC.</li> <li>- While ASIC already publishes significant information on severity of findings, ASIC is actively considering the possibility of an additional measure of findings.</li> </ul>
2.	The committee recommends that the Australian Government introduce, by the end of the 2020–21 financial year, through appropriate legislation, a requirement that ASIC publish all future individual audit firm inspection reports on its website once ASIC has adopted a revised reporting framework referred to in Recommendation 1.	<ul style="list-style-type: none"> <li>- ASIC obtained consent from the largest six firms to publish the individual audit inspection reports for the 12 months to 30 June 2020. Each firm published the previous two reports.</li> </ul>
3.	The committee recommends that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of: <ul style="list-style-type: none"> <li>- defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and</li> <li>- a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.</li> </ul>	<p>In progress.</p> <ul style="list-style-type: none"> <li>- The APESB and AASB are working together on the defined categories and fee disclosure requirements.</li> <li>- The International Ethics Standards Board has recently released revisions to the code in relation to prohibited non-audit services. The APESB have approved an exposure draft which will be issued in the coming weeks in Australia.</li> </ul>
4.	The committee recommends that the <i>Corporations Act 2001</i> be amended so that an auditor's independence declaration is expanded to require the auditor to specifically confirm that no prohibited non-audit services have been provided.	This will require an amendment to the <i>Corporations Act 2001</i> .
5.	The committee recommends that the Australian Professional and Ethical Standards Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.	<ul style="list-style-type: none"> <li>- Already exists at individual partner level ie. cannot be incentivised for selling non-audit services to that partner's audit clients, however there is no prohibition currently in the Code for selling non-audit services to other audits clients of the firm.</li> </ul>

## PJC Regulation of Auditing in Australia - Status of recommendations

	Recommendation	Status
		<ul style="list-style-type: none"> <li>- APESB have approved an exposure draft which will be issued shortly in Australia, which includes a safeguard that a key audit partner cannot be compensated for selling non-assurance services to any audit client of the firm, to respond to this recommendation.</li> </ul>
6.	<p>The committee recommends that the Financial Reporting Council, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.</p>	<p>In progress. ASIC, the AASB, AUASB and AICD have been discussing:</p> <ul style="list-style-type: none"> <li>- which entities should be required to disclose this, and</li> <li>- where this disclosure should be reside ie. directors' report, financial statements or auditor's report.</li> </ul> <p>The preference is in the directors' report however the financial statements is also a valid option. Further work is progressing on these questions and how to legislate. The AICD is also undertaking further work on how to give effect to this in the absence of a legislative requirement.</p>
7.	<p>The committee recommends that the <i>Corporations Act 2001</i> be amended to implement a mandatory tendering regime such that entities required to have their financial reports audited under the Act must:</p> <ul style="list-style-type: none"> <li>- undertake a public tender process every ten years; or</li> <li>- if an entity elects not to undertake a public tender process, the entity must provide an explanation to shareholders in its annual report as to why this has not occurred.</li> </ul> <p>The committee further recommends that such a tender process be implemented by 2022 for any entity that has had the same auditor for a continuous period of ten years since 2012.</p>	<p>No specific actions will be undertaken until the Government responds to be recommendation.</p>
8.	<p>The committee recommends that the Financial Reporting Council oversee a formal review, to report by the end of the 2020–21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to:</p> <ul style="list-style-type: none"> <li>- the prevention and detection of fraud; and</li> <li>- management's assessment of going concern.</li> </ul>	<p>In progress:</p> <ul style="list-style-type: none"> <li>- The AASB and AUASB adopt standards issued by the International Accounting Standards Board (IASB) and the International Audit and Assurance Standards Board (IAASB) and therefore are monitoring international developments.</li> </ul>

## PJC Regulation of Auditing in Australia - Status of recommendations

	Recommendation	Status
		<ul style="list-style-type: none"> <li>- The IAASB have commenced projects to consider the current auditing standards for fraud and going concern. However these are unlikely to be completed until at least 2024.</li> <li>- Whilst the IAASB and the AASB have raised going concern with the IASB previously, they have not agreed to commence a project to look at the financial statement disclosure requirements. The AASB are preparing a thought leadership paper on going concern disclosure requirements and how they may be enhanced with the intention to share this with the IASB.</li> <li>- Fraud is not a project being considered by the IASB.</li> <li>- The international progress is slow and the AASB and the AUASB may need to consider moving ahead of international if the Australian government accept this recommendation with an implementation date sooner than can be achieved by waiting for international developments.</li> <li>- This will be monitored going forward.</li> </ul>
9.	<p>The committee recommends that the <i>Corporations Act 2001</i> be amended such that entities required to have their financial reports audited under the Act must establish and maintain an internal controls framework for financial reporting. In addition, such amendments should require that:</p> <ul style="list-style-type: none"> <li>- management evaluate and annually report on the effectiveness of the entity's internal control framework; and</li> <li>- the external auditor report on management's assessment of the entity's internal control framework.</li> </ul>	<p>Whilst this recommendation is included in the final report the PJC's recommendation is for the Government to consider both appropriate timelines and thresholds (entity size and type) given the additional costs that this recommendation would cause. No work will commence on this recommendation until the Government responds to this recommendation.</p>
10.	<p>The committee recommends that the Australian Government take appropriate action to make digital financial reporting standard practice in Australia.</p>	<p>ASIC is holding a webinar on 8 June 2021 to raise awareness.</p>



## AUASB Agenda Paper

<b>Project:</b>	<b>AUASB Framework and Processes Plan</b>	<b>Meeting:</b>	<b>8-9 June 2021</b>
<b>Topic:</b>	<b>ASA 100 and ASA 101 – Preamble to AUASB Standards</b>	<b>Agenda Item:</b>	<b>3.0</b>
<b>Strategic Objectives:</b>	1 & 2	<b>Decision-Making:</b>	Review and Approval of Exposure Draft
<b>ATG Staff:</b>	Johanna Foyster	<b>Project Status:</b>	Exposure Draft

### A. Action Required and Decisions to be Made

- 1 For the AUASB to:
  - (a) review and approve to issue Exposure Draft ED 2021-2 *Proposed Auditing Standard ASA 101 Preamble to AUASB Standards* (ED 02/21) - see **Agenda Item 3.1**; and
  - (b) undertake a 'fatal flaw' review of the draft Explanatory Memorandum to ED 02/21 - see **Agenda Item 3.3**.

### B. AUASB Technical Group (ATG) Recommendations Overview and Questions for the Board

Question for the Board	ATG Recommendations Overview
1. Does the AUASB agree with the ATG's proposed revised ASA 101, included at <b>Agenda Item 3.1</b> ?	Approve to issue <b>Exposure Draft ED 02/21</b> for a 30-day comment period.
2. Does the AUASB support the ATG's draft Explanatory Memorandum document that will accompany ED 02/21, included at <b>Agenda Item 3.3</b> ?	Provide feedback on the <b>Explanatory Memorandum to ED 02/21</b> .

### C. Background

- 2 In May 2020, the AUASB approved a project to update the AUASB's Due Process Framework and related policies and framework pronouncements. The AUASB's Preambles were specifically identified in the plan for review and updating.
- 3 The AUASB currently has two Preamble pronouncements - *ASA 100 Preamble to AUASB Standards* (issued 2006) and *ASA 101 Preamble to Australian Auditing Standards* (issued 2009). ASA 100 and ASA 101 together serve as the primary interpretive documents for AUASB Standards. AUASB Standards are to be read and applied in conjunction with the AUASB's Preambles.
- 4 At the **September 2020 AUASB meeting**, the AUASB supported a proposal to replace ASA 100 and ASA 101 with a single comprehensive preamble that will apply to all AUASB Standards; that is, to expand the scope of ASA 101 to also include standards other than Auditing Standards.
- 5 At the **April 2021 AUASB meeting**, the Board considered and provided feedback on a first draft of the proposed revised ASA 101 – refer to **Agenda Item 4** of this meeting for further information on matters raised for Board consideration and discussion.

## D. Matters for Board Consideration

- 6 The ATG considered the Board's feedback from the April 2021 meeting to finalise the proposed standard. A mark-up of further changes made to extant ASA 101 subsequent to the April 2021 AUASB meeting, is included at **Agenda Item 3.2**.
- 7 As flagged at the April 2021 AUASB meeting, the ATG has engaged the services of an independent legal firm to review the proposed amendments to ASA 101 and to provide legal advice on:
  - (a) the necessary changes to ASA 101 as a result of the expansion of application to standards other than Australian Auditing Standards;
  - (b) the likelihood of any unintended consequences flowing from the proposed amendments to ASA 101; and
  - (c) specific matters identified as part of the ATG's review of the preambles and Board feedback from the April 2021 meeting.
- 8 The proposed revised ASA 101 (ED 02/21) included at Agenda Item 3.1 has been reviewed by the legal firm, and their feedback have been addressed in the attached documents. A copy of the legal advice is attached at **Agenda Item 3.4 (BOARD ONLY)**.
- 9 Overall, the legal advice supports the general approach to the ATG's update of the Preamble to AUASB Standards.

## **Specific Matters raised by the AUASB at the April 2021 AUASB meeting (or by individual Board members before the April 2021 meeting) and ATG Response**

### ***Operative Date – ED 02/21 paragraph 2***

- 10 A Board member raised a question about potential unintended consequences where early adoption of the revised ASA 101 is permitted. Where an assurance practitioner decides to adopt the revised standard before its operative date of 1 October 2021, this will require disclosure in the audit report (ED 02/21, paragraphs A34-A35).
- 11 The legal firm has considered the proposed paragraph 2 of ED 02/21 in the context of the related explanatory material set out in paragraphs A34-A35, and recommends the following:
  - That the AUASB consider aligning the issue date with the operative date of the standard.
  - That the revised ASA 101 not be 'silent' on the ability of assurance practitioners to adopt the proposed standard earlier than the operative date. Although the default position under the revised ASA 101 and the Corporations Act is that a standard can be applied prior to its operative date, assurance practitioners may not be aware of this. Explicitly allowing (or disallowing) early adoption will bring additional clarity to how and when practitioners can adopt AUASB Standards.
  - Currently, there is a gap in the AUASB standards in that ASA 100 has been repealed and no longer has the force of law. Permitting the early adoption of the revised ASA 101 (which incorporates key aspects of ASA 100) will ensure there is a legally binding substitute in place to partly fill this gap.

### ***ATG Response***

- 12 No amendments made to the April 2021 version of the proposed standard, which explicitly states that early adoption is permitted.
- 13 The ATG does not consider this to be a significant issue as it is very unlikely that the final standard will be issued before mid-September 2021 - refer to the timeline for finalising the revised ASA 101 outlined in Section F of this paper. Furthermore, the standard will only become a legislative instrument once registered on the Federal Register of Legislation, which generally happens within 2 days of being lodged with the OPC. An instrument commences on the start of the day after it is registered. Therefore, the issue date and operative date of the proposed standard will be very close.

### ***Purpose and Scope of Revised ASA 101 - ED 02/21 paragraph 3***

- 14 A Board member suggested replacing the word "intentions" with "expectations". The ATG sought legal advice on the preferred wording for paragraph 3 of ED 01/21 which sets out the scope and purpose of the Preamble.

- 15 According to the legal advice, both words could be used interchangeably as they carry the same meaning. However, legal advice states there is a risk that the reference to subjective “intentions” or “expectations” within paragraph 3 could diminish the enforceability of the guidance and that this phrasing adds no probative strength to the standards themselves. To avoid the issues that arise from a subjective standard, it was recommended that paragraph 3 makes it clear that the AUASB Standards are to be understood in an objective manner.

## *ATG Response*

- 16 The ATG agrees with this advice and has amended paragraph 3 of ED 02/21 as follows:
- “This Auditing Standard sets out the expectations of the AUASB as to how AUASB Standards are to be understood, interpreted and applied.”

## ***Documentation Requirements when a Requirement in a Standard is not relevant - Extant ASA 101 paragraph 12; ED 02/21 paragraphs A41-A43***

- 17 At the April 2021 AUASB meeting, the AUASB endorsed the ATG’s proposal to move the “Requirements” set out in paragraph 11 and 12 of the extant ASA 101 to the “Application and Other Explanatory Material” section of the proposed revised ASA 101. The ATG does not consider paragraphs 11 and 12 to be requirements in addition to existing requirements contained in other AUASB Standards. The ATG’s position is that these paragraphs provide further explanation and clarification of the application of requirements contained in AUASB Standards.
- 18 Paragraph 12 of extant ASA 101 includes a specific requirement describing the circumstances when an auditor is not required to document the reason(s) why a requirement is not relevant. At the April 2021 AUASB meeting, a Board member queried whether relegating the requirement in paragraph 12 of extant ASA 101 to application and other explanatory material in the revised ASA 101 may create any future enforcement challenges.
- 19 The ATG has obtained independent legal advice on this matter that supports the position that paragraph 12 of extant ASA 101 is more appropriately placed in the Application and Other Explanatory Material section of ED 02/21. The basis for this position is that the difference in scope between extant ASA 101 and ED 02/21 determines the types of matters to be contained within the primary section of each standard. In light of the scope of extant ASA 101, mandatory requirements, such as paragraph 12, could be appropriately placed within the primary section of extant ASA 101. In contrast, the scope of the proposed revised ASA 101 does not provide for mandatory requirements to be included within the primary section of ED 02/21. For further background, refer to the Explanatory Memorandum to ED 02/21 paragraphs 16(b) and 16(d).

## *ATG Response*

- 20 No amendments made to the April 2021 version of the proposed standard.

## ***Compliance and Enforcement – ED 02/21, paragraph A7***

- 21 An AUASB member found inclusion of the words “The extent of compliance required” in paragraph A7 confusing in light of preceding paragraphs that gave a clear message that the assurance practitioner have to comply with the mandatory requirements.
- 22 The ATG has requested the legal firm to review paragraph A7 in light of the Board member’s comments. Advice obtained agrees that the current wording has the unintended implication that full compliance with the AUASB Standards is not required.

## *ATG Response*

- 23 The ATG has worked with the legal firm to come up with revised wording to address the concerns of the AUASB member. See marked up changes to paragraph A7 of ED 02/21 at **Agenda Item 3.2**.
- 24 Subsequent to the revised Preamble being approved the ATG will need to update the wording of the *Foreword to AUASB Pronouncements* (paragraph 6) and the *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (paragraph 17) to align with the final wording for paragraph A7 as approved by the Board.

## **AUASB Drafting Conventions - ED 02/21 paragraph A55**

- 25 At the April 2021 AUASB meeting, the AUASB supported the ATG's proposal not to carry forward to the revised preamble the explanatory material included in the extant ASA 100 on words and phrases used in AUASB Standards on the basis that most of this material no longer continue to be relevant to AUASB Standards which have been redrafted in "clarity" format and reissued in 2009. Refer to the Explanatory Memorandum to ED 02/21, paragraph 16(e)(iii).
- 26 The ATG asked the legal firm to review paragraph A55 of ED 02/21 entitled "AUASB Drafting Conventions" and to consider whether there are any unintended consequences of not including all of the explanatory material previously set out in paragraph 48 of ASA 100.
- 27 Legal advice affirmed paragraph A55 of the proposed revised ASA 101 contains an appropriate list of the interpretative principles to be used when reading an AUASB Standard; however, the recommendation was to retain the interpretative guidance in paragraph 48(c) of ASA 100 surrounding the use of the word "including" and importantly to expressly state that the use of the word "including" is not exhaustive.

## **ATG Response**

- 28 Added paragraph 48(c) of ASA 100 to paragraph A55 of ED 02/21 – see marked up changes in **Agenda Item 3.2**.

## **E. Conforming Amendments**

- 29 The proposed amendments to ASA 101 will likely require further conforming amendments to be made to the following Auditing Standards once the revised preamble has been approved:
- (a) ASA 200 – amendment to align the wording of paragraph A56 with that of its international equivalent.
  - (b) ASA 700 – "Aus" paragraph amendment to require that where an assurance practitioner is conducting an audit of a financial report and the practitioner elects to early adopt an auditing standard made under s336 of the Corporations Act, in accordance with section 336(4), that election must be recorded in the audit report.
- 30 Conforming amendments to other AUASB pronouncements and policies:
- (a) *Foreword to AUASB Pronouncements* – update paragraph 6 to align with paragraph A7 of the revised ASA 101 and replace cross references to ASA 100 and ASA 101 with references to the revised ASA 101.
  - (b) *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* – update paragraph 17 to align with paragraph A7 of the revised ASA 101 and replace cross references to ASA 100 and ASA 101 with references to the revised ASA 101. Include hyperlinks to the revised Foreword and Preamble, once uploaded on the AUASB website.
- 31 Relevant AUASB Standards will need to be reissued with updated Authority Statements to reference ASA 101 instead of ASA 100.

## **F. Next Steps**

- 32 Complete AUASB Quality Assurance (QA) and other internal processes.
- 33 Finalise the Explanatory Memorandum document to address AUASB feedback.
- 34 Issue ED 02/21 and related Explanatory Memorandum for public comment. ED 02/21 will be open to stakeholders for a 30-day comment period, with a proposed closing date of **31 July 2021** to allow for suitable time to process final changes before the September 2021 AUASB Meeting.

35 Proposed timeline to complete the project:

Action	Timeline (2021)
AUASB consider and <b>approve ED 02/21</b>	June 2021 AUASB meeting
<b>Issue ED 02/21 for a 30-day comment period</b>	Post June AUASB meeting Comments due: 31 July 2021
<b>Consider feedback</b> from public consultation and finalise standard. Prepare <b>Basis for Conclusions</b> document and <b>Explanatory Statement</b> .	August 2021
AUASB <b>approve final standard</b> to issue AUASB <b>approve Amending Standard</b> - amendments to ASA 200 and ASA 700	Seek AUASB approval at September 2021 AUASB meeting Issue final standard mid-September after final QA process
Reissue relevant AUASB Standards with updated Authority Statements to reference ASA 101 instead of ASA 100 Update the AUASB's Due Process Framework and AUASB Foreword to align with, and reference, the revised ASA 101.	September 2021

## G. Attachments to the Agenda Paper

Agenda Item	Description
3.1	ED 02/21 Proposed Revised ASA 101 <i>Preamble to AUASB Standards</i> <b>CLEAN VERSION</b>
3.2	ED 02/21 Proposed Revised ASA 101 <i>Preamble to AUASB Standards</i> <b>MARKED UP FROM APRIL 2021 AUASB MEETING</b>
3.3	Explanatory Memorandum ED 02/21
3.4	Independent Legal Advice in relation to the proposed revision of AUASB Preamble Standards <b>BOARD ONLY</b>

**EXPOSURE DRAFT**

**ED 2021-2**  
(June 2021)

# **Proposed Auditing Standard ASA 101**

## ***Preamble to AUASB Standards***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be received by no later than 31 July 2021. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## **Formal Submissions**

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **PREFACE**

### **Reasons for Issuing ED 2021-2**

The AUASB issues Exposure Draft ED 2021-2 of proposed Auditing Standard ASA 101 *Preamble to AUASB Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent non-corporate Commonwealth entity of the Australian Government 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 *Legislation 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 Proposals**

The AUASB is proposing to replace Auditing Standard ASA 100 *Preamble to AUASB Standards* (F2006L01321) and Auditing Standard ASA 101 *Preamble to Australian Auditing Standards* (F2009L04062) with an updated comprehensive Preamble that will apply to all AUASB Standards (Revised ASA 101).

The Explanatory Memorandum accompanying this proposed Auditing Standard provides an overview of the proposed amendments to the current ASA 101.

### **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for engagements with financial reporting periods commencing on or after 1 October 2021. Early adoption of this Auditing Standard is permitted prior to this date.

### **Main changes from existing ASA 101 *Preamble to Australian Auditing Standards* (October 2009)**

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 101 *Preamble to Australian Auditing Standards* (October 2009), are included in the Explanatory Memorandum.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 101 no later than 31 July 2021.

The AUASB is seeking comments from stakeholders on the following questions:

- |    |  |
|----|--|
| 1. | Do you support the introduction of the proposed revised ASA 101? If not, why not?<br><br>The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the matters below. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.   |
| 2. | Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?   |
| 3. | Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?   |
| 4. | What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:<br><br>a. Where these costs are likely to occur;<br>b. The estimated extent of costs, in percentage terms (relative to fees); and<br>c. Whether expected costs outweigh the benefits to the users of assurance services? |
| 6. | Are there any other significant public interest <sup>1</sup> matters that stakeholders wish to raise?  |

The AUASB asks that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcomes any other comments which are not specifically addressed by the questions above.

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<sup>1</sup> The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements* expands upon what the "public interest" means to the AUASB and provides a useful frame of reference for the AUASB to assess whether its standard-setting process is appropriate and responsive to the public interest. See Appendix 1 of the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

**AUTHORITY STATEMENT**

Auditing Standard ASA 101 *Preamble to AUASB Standards* is set out in paragraphs 1 to A55.

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 101 *Preamble to AUASB Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

## **Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Where relevant, the AUASB has aligned the wording of this Auditing Standard with the IAASB's *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

## **AUDITING STANDARD ASA 101**

### ***Preamble to AUASB Standards***

#### **Application**

1. This Auditing Standard applies to:
  - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001* (Corporations Act); (Ref: Para. A5-A6; A30-A32)
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other financial information;
  - (d) other assurance engagements;
  - (e) related services engagements; and
  - (f) a firm required to comply with ASQM 1.<sup>2</sup>

#### **Operative Date**

2. This Auditing Standard is operative for engagements with financial reporting periods commencing on or after 1 October 2021. Early adoption of this Auditing Standard is permitted prior to this date.

#### **Introduction**

##### **Scope of this Auditing Standard**

3. This Auditing Standard sets out how AUASB Standards are to be understood, interpreted and applied.
4. AUASB Standards are to be read and applied in conjunction with this Auditing Standard. (Ref: Para. A1-A2)

##### **Standards issued by the AUASB** (Ref: Para. A3-A25)

5. The AUASB derives its functions and powers under section 227B of the *Australian Securities and Investments Commission Act 2001*. The AUASB:
  - (a) makes Auditing Standards under section 336 of the Corporations Act for the purposes of the corporations legislation;<sup>3</sup> and
  - (b) formulates auditing and assurance standards for other purposes.<sup>4</sup>

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<sup>2</sup> Or ASQC 1, as applicable. ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, issued in March 2021, replaces Auditing Standard 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* from 15 December 2022.

<sup>3</sup> Pursuant to section 227B(1)(a) of the ASIC Act.

<sup>4</sup> Pursuant to section 227B(1)(b) of the ASIC Act.

6. ‘Auditing and assurance standards for other purposes’ consists of standards that are designed for subject-specific areas. They include, for example, assurance engagements that relate to:
- reviews (other than a review by the independent auditor of the entity, of interim financial information, including interim financial reports, prepared for other purposes);
  - evaluating the efficiency and/or effectiveness of an entity’s activities;
  - prospective financial information; and
  - the effectiveness of internal controls.
7. The AUASB issues the following types of standards (AUASB Standards) pursuant to its mandate under section 227B of the ASIC Act:
- (a) Australian Standards on Quality Management (ASQMs);<sup>5</sup>
  - (b) Australian Auditing Standards (ASAs);<sup>6</sup>
  - (c) Standards on Review Engagements (ASREs);<sup>7</sup>
  - (d) Standards on Assurance Engagements (ASAEs); and
  - (e) Standards on Related Services (ASRSs).
8. AUASB Standards do not address all the responsibilities of the assurance practitioner<sup>8</sup> that may exist in legislation, regulation or otherwise in connection with engagements that fall within the scope of AUASB Standards.

## **Objective**

9. The objective of the assurance practitioner is to use this Auditing Standard in order to understand, interpret and apply AUASB Standards.

## **Definitions**

10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Assurance practitioner means an individual, firm<sup>9</sup>, or other organisation, whether in public practice, industry and commerce, or the public sector, conducting assurance engagements or related services engagements<sup>10</sup>.
  - (b) AUASB Standards means standards issued by the AUASB, comprising:
    - (i) Australian Auditing Standards (ASAs) – as defined in paragraph 10(c);

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<sup>5</sup> For legislative purposes, ASQM 1 and ASQM 2 *Engagement Quality Reviews* are included in legislation as “Auditing Standards” – see paragraph 10(d) of this Preamble.

<sup>6</sup> Defined in paragraph 10(c) of this Preamble.

<sup>7</sup> For legislative purposes, ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*, are included in legislation as “Auditing Standards” – see paragraph 10(d) of this Preamble.

<sup>8</sup> Defined in paragraph 10(a) of this Preamble.

<sup>9</sup> Firm means a sole practitioner, partnership, corporation or other entity of assurance practitioners, or public sector equivalent. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this Auditing Standard.

<sup>10</sup> Related services engagements include engagements to perform agreed-upon procedures. The term ‘assurance practitioner’ is referred to in ASRS 4400 *Agreed-Upon Procedures Engagements* as ‘practitioner’.

- (ii) Standards on Review Engagements (ASREs);
  - (iii) Standards on Assurance Engagements (ASAEs); and
  - (iv) Standards on Related Services (ASRSs).
- (c) Australian Auditing Standards (ASAs) means the suite of auditing standards issued by the AUASB, comprising:
  - (i) Auditing Standards made under section 336 of the Corporations Act – as defined in paragraph 10(d);
  - (ii) *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
  - (iii) *ASA 810 Engagements to Report on Summary Financial Statements*.
- (d) Auditing Standards means auditing standards made under section 336 of the Corporations Act, and include:
  - (i) ASQM 1;
  - (ii) *ASQM 2 Engagement Quality Reviews*;
  - (iii) *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*; and
  - (iv) *ASRE 2415 Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*.

## **Requirements**

11. The assurance practitioner shall apply AUASB Standards in conjunction with paragraphs 12 and 13 of this Auditing Standard.

### **Authority of the Paragraphs in AUASB Standards** (Ref: Para. A26-A55)

#### **Mandatory Components** (Ref: Para. A28-A44, A55)

12. The assurance practitioner shall apply the mandatory components of AUASB Standards relevant to the engagement. The mandatory components are included in each AUASB Standard under the headings listed below:
- (a) Application. (Ref: Para. A28-A32)
  - (b) Operative Date. (Ref: Para. A33-A35)
  - (c) Objective(s). (Ref: Para. A36)
  - (d) Definition(s). (Ref: Para. A37)
  - (e) Requirements. (Ref: Para. A38-A44)

#### **Explanatory Material** (Ref: Para. A45-A55)

13. The assurance practitioner shall have an understanding of the entire text of an AUASB Standard, including its application and other explanatory material, to understand its objectives and to apply the mandatory components of the standard properly. The explanatory material is included in each standard under the headings listed below (where applicable):

- (a) Conformity with International Standards. (Ref: Para. A45-A49)
- (b) Application. (Ref: Para. A28, A32).
- (c) Introduction. (Ref: Para. A50)
- (d) Application and Other Explanatory Material. (Ref: Para. A51-A53)
- (e) Appendices. (Ref: Para. A54)

Explanatory material does not create or extend mandatory components.

## **Application and Other Explanatory Material**

### **Scope of this Auditing Standard** (Ref: Para. 3-4)

#### **“Authority Statement” included in AUASB Standards**

- A1. This Auditing Standard forms an important part of the legal and regulatory framework of AUASB Standards. AUASB Standards are to be read in conjunction with this Auditing Standard.
- A2. All AUASB Standards contain an “Authority Statement”. The purposes of the Authority Statement are to:
- (a) link the issuance of each individual AUASB Standard to the mandating legislation;
  - (b) identify the paragraphs that comprise the AUASB Standard; and
  - (c) set out the requirement to read the AUASB Standard in conjunction with this Auditing Standard.

#### **Standards issued by the AUASB** (Ref: Para. 5-8)

- A3. The AUASB issues the following types of standards pursuant to its mandate under section 227B of the ASIC Act:
- (a) Australian Standards on Quality Management (ASQMs)  
  
ASQMs<sup>11</sup> apply to firms in respect of all engagements to which AUASB Standards apply.  
  
The authority of ASQMs is set out in the introduction to each ASQM.
  - (b) Australian Auditing Standards (ASAs)  
  
ASAs, whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information.  
  
The authority of the suite of ASAs is set out in ASA 200<sup>12</sup>. ASA 200 deals with the auditor’s overall responsibilities when conducting an audit of a financial report in accordance with ASAs. Specifically, it sets out the overall objectives of the auditor, and explains the nature and scope of an audit designed to enable the auditor to meet those objectives. It also explains the scope, authority and structure of the ASAs, and includes requirements establishing the general responsibilities of the auditor applicable in all audits, including the obligation to comply with the ASAs.  
  
The ASAs, taken together, provide the standards for the auditor’s work in fulfilling the overall objectives of the auditor. The ASAs deal with the general responsibilities of the auditor, as well as the auditor’s further considerations relevant to the application of those responsibilities to specific topics.

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<sup>11</sup> For legislative purposes, ASQM 1 and ASQM 2 are included in legislation as “Auditing Standards”.

<sup>12</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

(c) Standards on Review Engagements (ASREs)

ASREs<sup>13</sup> are to be applied to the review of a financial report and the review of other historical financial information.

The authority of ASREs is set out in the introduction to each ASRE.<sup>14</sup>

(d) Standards on Assurance Engagements (ASAEs)

ASAEs are to be applied to assurance engagements dealing with subject matters other than historical financial information.<sup>15</sup>

ASAE 3000<sup>16</sup> explains the scope, authority and structure of the ASAEs, and includes requirements regarding the conduct of an assurance engagement in accordance with ASAEs.<sup>17</sup>

Where a subject-matter specific ASAE is relevant to the subject matter of a particular engagement, that ASAE applies in addition to ASAE 3000. The introduction to each subject-matter specific ASAE sets out the relationship of the ASAE with ASAE 3000.

(e) Standards on Related Services (ASRSs)

ASRSs are to be applied when an assurance practitioner is engaged to undertake engagements other than assurance engagements covered by ASAs, ASREs or ASAEs.<sup>18</sup>

The authority of ASRSs is set out in the introduction to each ASRS.<sup>19</sup>

- A4. The scope, operative date and any specific limitation of the applicability of a specific AUASB Standard, is made clear in each standard.

**Auditing Standards made under Section 336 of the Corporations Act**

- A5. Auditing Standards made under section 336 of the Corporations Act apply to:

- (a) an audit of a financial report for a financial year, or an audit or review<sup>20</sup> of a financial report for a half-year, prepared in accordance with Part 2M.3 of the Act;
- (b) an audit conducted under Part 7.8 of the Act;
- (c) an audit of a financial report, or a complete set of financial statements, prepared for any other purpose;

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<sup>13</sup> For legislative purposes, ASRE 2410 and ASRE 2415 are included in legislation as “Auditing Standards”:

<sup>14</sup> For example, see ASRE 2400 *Review of a financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, paragraphs 9-12.

<sup>15</sup> Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls. The AUASB’s *Framework for Assurance Engagements*, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding ASAEs.

<sup>16</sup> See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

<sup>17</sup> See ASAE 3000, “Introduction” (paragraphs 1-8) and “Conduct of an Assurance Engagement in Accordance with ASAEs” (paragraphs 14-20).

<sup>18</sup> Examples of financial and non-financial subject matters on which Standards on Related Services may be applied include: Agreeing the eligibility of expenditures claimed from a funding program; Recalculating revenues for determining royalties, rent or franchise fees based on a percentage of revenues; Confirming the calculation of capital adequacy ratios for regulatory authorities; Observation of the destruction of fake or defective goods reported to a regulatory authority; and Tracing data generating processes for lottery draws reported to a regulatory authority.

<sup>19</sup> For example, see ASRS 4400, paragraphs 7-10. Where this information is not included in the introduction of an ASRS, for example ASRS 4450 *Comfort Letter Engagements*, relevant terms are to be interpreted in a directly analogous way to how they are explained in the context of ASRS 4400.

<sup>20</sup> For legislative purposes, ASRE 2410 and ASRE 2415 are included in legislation as “Auditing Standards”.

- (d) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose; and
  - (e) a firm required to comply with ASQM 1.
- A6. Although Auditing Standards are written mainly in the context of an external audit of a financial report,<sup>21</sup> they apply also, adapted as necessary, to the audit of other historical financial information.

### **Compliance and Enforcement**

- A7. AUASB Standards are not legally binding in all contexts:
- Standards made and issued under section 336 of the Corporations Act for the purposes of the corporations legislation have the status of law.<sup>22</sup> Where engagements covered by these standards are undertaken for the purposes of complying with the Corporations Act, full compliance is required as a matter of law.<sup>23</sup>
  - Auditing and assurance standards may also be issued or used for other purposes. Where auditing and assurance standards are used for purposes other than complying with the Corporations Act, compliance with those standards may not be required as a matter of law. There are, however, circumstances in which compliance is required by other legislation, regulatory or contractual arrangements.
- A8. Auditing Standards issued by the AUASB under the Corporations Act, are legally enforceable by the Australian regulator – the Australian Securities and Investments Commission (ASIC). ASIC conducts regular inspection programmes as an integral part of its enforcement responsibilities.
- A9. Through the standards issued by the Accounting Professional & Ethical Standards Board (APESB), members of the Australian Professional Accounting Bodies are compelled to comply with the requirements of AUASB Standards.<sup>24</sup>
- A10. Member compliance is enforced through the inspection programmes of the Professional Accounting Bodies, which are also responsible for member disciplinary action.

### **Type of Entity**

- A11. AUASB Standards are:
- (a) neutral with respect to the sector and size of the entity subject to the engagement; and
  - (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an external firm in both the public and private sectors.
- A12. The AUASB generally does not set industry or sector specific standards but may from time to time produce industry or sector specific guidance materials. Where necessary, entity sector

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<sup>21</sup> Reference to a 'financial report' includes not only a financial report as defined under Part 2M.3 of the Act, but also a financial report prepared for other purposes. Financial reports required by Part 2M.3 of the Corporations Act are:

- the annual financial report; and
- the half-year financial report (for certain entities).

<sup>22</sup> These standards are classified as disallowable legislative instruments under the *Legislation Act 2003*. The AUASB has adopted certain drafting principles in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the *Legislation Act 2003*.

<sup>23</sup> Section 307A of the Corporations Act requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act in accordance with Auditing Standards.

<sup>24</sup> See APES 210 *Conformity with Auditing and Assurance Standards*, issued by the APESB.

and size considerations are included, and identified, in the body of the relevant AUASB Standard.

- A13. AUASB Standards do not take into account any specific circumstances affecting entities that are subject to the engagement.

*Public Sector Engagements*

- A14. AUASB Standards are relevant to engagements in the public sector. When appropriate, additional considerations specific to public sector entities are included within the “Application and Other Explanatory Material” section of each standard.
- A15. The responsibilities of public sector assurance practitioners may be affected by the mandate applying to the engagement, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an engagement in accordance with the AUASB Standards. These additional responsibilities are not dealt with in the AUASB Standards. They may be dealt with in guidance developed by government audit agencies<sup>25</sup>.

**Applying AUASB Standards**

*Professional Judgement*

- A16. Professional judgement is essential to the proper conduct of engagements that fall within the scope of AUASB Standards. This is because interpretation of relevant ethical requirements and relevant AUASB Standards and the informed decisions required throughout the engagement cannot be made without the application of relevant training, knowledge and experience to the facts and circumstances.<sup>26</sup>

**Ethical Principles and Quality Management Standards**

- A17. Compliance with ethical principles, including independence requirements, and quality management within firms that perform engagements to which AUASB Standards apply, are widely recognised as being in the public interest and an integral part of a high-quality engagement.<sup>27</sup>

*Relevant Ethical Requirements*

- A18. References to compliance with relevant ethical requirements are included in certain requirements and explanatory material paragraphs in AUASB Standards. AUASB Standards are to be read in conjunction with relevant ethical requirements, as defined in ASA 102.<sup>28</sup> Law, regulation or relevant ethical requirements may establish responsibilities for the assurance practitioner beyond those described in AUASB Standards.

*Quality Management Standards*

- A19. ASQM 1 deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
- A20. Engagement quality reviews form part of the firm’s system of quality management and:

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<sup>25</sup> In Australia the term “government audit agencies” refers to State, Territory or Commonwealth Auditors-General.

<sup>26</sup> The term “professional judgement” is defined in the AUASB Glossary in the context of different types of AUASB Standards. For assurance engagements, see *Framework for Assurance Engagements*, paragraphs 56-60. For related services engagements, see ASRE 4400, paragraphs 13(j) and 18.

<sup>27</sup> For further details, refer to *Framework for Assurance Engagements*, paragraphs 5-9.

<sup>28</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

- (a) ASQM 1 deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
  - (b) ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.
- A21. AUASB Standards are premised on the basis that a firm is subject to the ASQMs, and include requirements regarding quality management at the engagement level.<sup>29</sup>

### **Amendments to AUASB Standards**

- A22. AUASB Standards may require amendment for a variety of reasons, such as consequential and conforming amendments that is required as a result of changes made to other AUASB Standards.

#### *Consequential and Conforming Amendments*

- A23. As standards made under section 336 of the Corporations Act are legislative instruments, they can only be amended by another legislative instrument. An "Amending Standard" is a legislative instrument made by the AUASB for the sole purpose of amending other legislative instruments (referred to as the "principal standard"). Amending Standards provide an efficient way of processing amendments which affect a number of standards without reissuing all the standards affected.

#### *Compilations*

- A24. The compiled version of a standard reflects the content of a standard, considering all amendments that have become effective since the principal standard was originally made. Compilations are a requirement of the *Legislation Act 2003* and are required to be lodged with the Office of Parliamentary Counsel for registration on the Federal Register of Legislation. A compilation is not a legislative instrument.<sup>30</sup>
- A25. Where the AUASB issues a compiled version of a standard:
- (a) the title page of the standard indicates that it is a compiled version of the standard and shows the date of the compilation and the relevant Amending Standards that have been taken into account;
  - (b) a "Compilation Details" section is included in the standard which includes the following information:
    - (i) a "Table of Standards", which sets out details of both the principal standard and subsequent Amending Standards, including the dates of both the principal and Amending Standards (date made, operative date and date registered on the Federal Register of Legislation);
    - (ii) a "Table of Amendments", which provides details of amendments to the principal standard (paragraph of standard affected, how affected and a paragraph reference to the relevant Amending Standard); and
    - (iii) a statement that the compilation is not a separate Auditing Standard made by the AUASB but a representation of the relevant Standard which incorporates the original standard and subsequent amendments.

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<sup>29</sup> For example, see ASA 220 *Quality Management for an Audit of Financial Statements*.

<sup>30</sup> For example, a standard might have a principal version issued in 2015 amended by Amending Standards (legislative instruments) that become effective, one each year, from 2016. Therefore, in 2020 the compiled version of the standard will reflect the amendments effective from 2016 through to 2020.

- (c) the Operative Date paragraph in the standard includes a reference to the Compilations Details section of the standard, for details about the operative dates of paragraphs changed or added by an Amending Standard. (Ref: Para. A33(a))

**Authority of the Paragraphs in AUASB Standards** (Ref: Para. 12-13)

- A26. The paragraphs in AUASB Standards do not have equal authority. AUASB Standards consist of paragraphs that are either:
- (a) mandatory components; or
  - (b) explanatory material.
- A27. Where an AUASB Standard does not include specific information to explain the status and authority of the paragraphs included within the standard, the terms explained below (for example, “Objectives”, “Requirements”, “Application and Other Explanatory Material”), are to be interpreted in a directly analogous way to how they are explained in the context of financial report audits in ASA 200.

**Mandatory Components** (Ref: Para. 12)

*“Application” Paragraphs* (Ref: Para. 12(a), 13(b))

- A28. Each AUASB Standard contains a mandatory “Application” paragraph. The standard may also include an additional “Application” paragraph that forms part of the explanatory material of the standard, to describe other engagements the standard may be applied to, adapted as necessary.
- A29. The “Application” paragraph or paragraphs of a standard identify the scope of the standard.
- Engagements under the Corporations Act (Ref: Para. 1(a); A5-A6)
- A30. Auditing Standards made under section 336 of the Corporations Act<sup>31</sup> contain a mandatory “Application” paragraph (shown as paragraph “Aus 0.1”) relating to:
- (a) 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; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- A31. The “Application” paragraph in each Auditing Standard that refers to audits or reviews conducted in accordance with the Corporations Act applies specifically to:
- (d) an audit or a review conducted under Part 2M.3 of the Act; and
  - (e) an audit conducted under Part 7.8 of the Act.
- A32. Auditing Standards may also include an additional “Application” paragraph (shown as paragraph “Aus 0.2”) that forms part of the explanatory material of the standard to explain that, although the Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, adapted as necessary, to the audit of other historical financial information.

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<sup>31</sup> With the exception of ASA 101, ASA 102, ASQM 1, ASQM 2, ASRE 2410 and ASRE 2415.

*Operative Date* (Ref: Para. 12(b))

- A33. The operative date stipulates the date from which the AUASB Standard is to be applied. The operative date is stated in relation to a financial reporting period. The requirements of an AUASB Standard remain in force until:
- (a) the operative date of any amendment to those requirements (Ref: Para. A22-A25));
  - (b) in relevant circumstances, the early adoption of such amendments; or
  - (c) the AUASB Standard is withdrawn by the AUASB.
- A34. Unless otherwise stated in an AUASB Standard, the assurance practitioner is permitted to apply a standard before the operative date specified therein. Where an AUASB Standard is early adopted, all relevant conforming and consequential amendments must also be early adopted.
- A35. Where an assurance practitioner is conducting an audit of a financial report and elects to early adopt an auditing standard made under section 336 of the Corporations Act, in accordance with section 336(4), that election must be recorded in the audit report.

*Objective(s)* (Ref: Para. 12(c))

- A36. Each AUASB Standard contains an objective or objectives which provide the context in which the requirements of the standard are set and establishes the desired outcome to be achieved by the assurance practitioner. The proper application of the requirements in the standard is expected to provide a sufficient basis for the practitioner's achievement of the objective(s).

*Definitions* (Ref: Para. 12(d))

- A37. Definitions contained within AUASB Standards, and/or contained within the *AUASB Glossary* (as issued from time to time), provide a description of the meanings attributed to certain terms for the purposes of the AUASB Standards. These definitions are provided for consistent application and interpretation of standards, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The *AUASB Glossary* contains a complete listing of terms defined in AUASB Standards.

*Requirements* (Ref: Para. 12(e))

- A38. Paragraphs that impose obligations on the assurance practitioner are contained in a separate "Requirements" section of each standard and expressed using the word "shall". Requirements are designed to enable the assurance practitioner to meet the stated objective(s) of an AUASB Standard. In certain circumstances, requirements are legally binding and enforceable.
- A39. The assurance practitioner applies the requirements in the context of the other material included in the AUASB Standard (for example, introductory material, definitions and application and other explanatory material). The entire text of an AUASB Standard, therefore, is relevant to an understanding of the objectives stated in an AUASB Standard and the proper application of the requirements of the standard. Although the assurance practitioner has a responsibility to consider the entire text of the standard in carrying out the engagement, application and explanatory material does not in itself impose a requirement.
- A40. For information on how the requirements in AUASB Standards are to be applied for:
- (a) audits and reviews of historical financial reports and information – see ASA 200;<sup>32</sup>

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<sup>32</sup> See ASA 200, paragraphs 18-24.

- (b) assurance engagements other than audits or reviews of historical financial information – see ASAE 3000.<sup>33</sup>

These standards also include requirements and explanatory material on the limited circumstances where the assurance practitioner may judge it necessary to depart from a relevant requirement in a standard.

- A41. The assurance practitioner is required to comply with all AUASB Standards relevant to an engagement. Furthermore, AUASB Standards require compliance with each requirement of a relevant standard unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional and the condition does not exist.<sup>34</sup>
- A42. When, in the circumstances of an engagement:
  - (a) an entire AUASB Standard is not relevant; or
  - (b) a requirement is not relevant because it is conditional and the condition does not exist, there is no requirement to document the reason(s) why the requirement is not relevant.
- A43. However, for audits or reviews conducted in accordance with the Corporations Act, where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the practitioner from complying with an essential procedure contained within a relevant requirement, the practitioner is required under ASA 230<sup>35</sup> or ASRE 2410<sup>36</sup>, as applicable, to document:
  - (a) the circumstances surrounding the inability to comply;
  - (b) the reasons for the inability to comply; and
  - (c) justification of how alternative procedures achieve the objectives of the requirement.
- A44. In the case of a review and related services engagement, the assurance practitioner is required to apply the requirements contained only in the specified standard applicable to that engagement, in conjunction with this Preamble to AUASB Standards. There is no requirement to apply the requirements of other AUASB Standards. However, reference to ASAs may be helpful to provide guidance.

**Explanatory Material** (Ref: Para. 13)

*Conformity with International Standards* (Ref: Para. 13(a))

- A45. The Conformity paragraphs explain the relationship of an AUASB Standard with its equivalent international standard issued by the IAASB. An AUASB Standard conforms to the equivalent international standard when:
  - (a) the requirements of the AUASB Standard correspond with those in the equivalent international standard or the AUASB Standard contains additional requirements; and
  - (b) the explanatory material is substantially the same as the equivalent international standard or the AUASB Standard contains additional explanatory material.

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<sup>33</sup> See ASAE 3000, paragraphs 14-19.

<sup>34</sup> See ASA 200, paragraph 22 and ASAE 3000, paragraph 17.

<sup>35</sup> See ASA 230 *Audit Documentation*, paragraph Aus 12.1.

<sup>36</sup> See ASRE 2410, paragraph 7.

- A46. The Conformity paragraphs in AUASB Standards include necessary differences from the equivalent international standard relating to terminology, referencing and Australian regulatory requirements.<sup>37</sup>
- A47. When an AUASB Standard and the equivalent international standard conform, the Conformity paragraphs contain a statement to this effect.
- A48. When an AUASB Standard and the equivalent international standard are not equivalent, the Conformity paragraphs detail the main differences.
- A49. The Conformity paragraphs in each AUASB Standard assist the assurance practitioner to determine to what extent (if any) compliance with AUASB Standards might enable also the engagement to be conducted in compliance with international standards. It is the responsibility of the assurance practitioner to determine which standards apply to the particular engagement and circumstances. Furthermore, where appropriate, the Conformity paragraphs contain the following sentence:

“Compliance with this Standard enables compliance with the equivalent international standard”.

*Introduction* (Ref: Para. 13(c))

- A50. Introductory material provides context relevant to a proper understanding of an AUASB Standard. Introductory material may include, as needed, such matters as explanation of the:
- purpose and scope of the Standard, including how the Standard relates to other AUASB Standards;
  - subject matter of the Standard; and
  - respective responsibilities of the assurance practitioner and others in relation to the subject matter of the Standard.

*Application and Other Explanatory Material* (Ref: Para. 13(d))

- A51. Included within the requirements section of a standard are references to paragraphs in the “Application and Other Explanatory Material” section of the standard. Such references do not extend or create requirements.
- A52. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying the requirements out. In particular, it may:
- explain more precisely what a requirement means or is intended to cover; and
  - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an AUASB Standard.

- A53. Where appropriate, additional considerations specific to public sector and smaller entity engagements are included within the “Application and Other Explanatory Material” section of the standard. These additional considerations assist in the application of the requirements of the standards in conducting such engagements. However, they do not limit or reduce the

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<sup>37</sup> Refer to the *AUASB Policy and Process for International Conformance and Harmonisation of Standards* for details of the principles and process the AUASB applies in considering modifications to IAASB Standards.

responsibility of the assurance practitioner to apply and comply with the requirements of AUASB Standards.

*Appendices* (Ref: Para. 13(e))

- A54. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related standard or within the title and introduction of the appendix itself.

*AUASB Drafting Conventions* (Ref: Para. 12-13)

- A55. The following drafting principles and conventions apply to AUASB Standards:

- (a) The requirements of each AUASB Standard are contained in a separate “Requirements” section of a standard. The requirements of an AUASB Standard are expressed using the word “shall” to denote the obligations an assurance practitioner is required to comply with in achieving the objective or objectives stated in the standard.
- (b) Paragraphs containing application and other explanatory material are designated with the letter “A”.
- (c) The present tense of verbs is used in explanatory material when it is the best form of expression. Use of the present tense does not create or imply requirements. The present tense is used in examples and other explanatory material that relate to professional judgement and professional scepticism.
- (d) Requirements that exist in another AUASB Standard are anchored back to the original requirement (for example, using the phrase “in accordance with”) when repetition or a cross reference is considered necessary for understanding and context.
- (e) Australian additions or modifications to an equivalent IAASB Standard are marked as Australian paragraphs or additional appendices commencing with an “Aus” prefix.
- (f) Deletions from an equivalent IAASB Standard are clearly noted as “Deleted by the AUASB. Refer Aus ...”.
- (g) The extent of differences between an AUASB Standard and its equivalent international standard are detailed in the “Conformity with International Standards” section of the standard.
- (h) The word “including”, as used in AUASB Standards, means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

**EXPOSURE DRAFT**

**ED 2021-2**  
(June 2021)

# **Proposed Auditing Standard ASA 101**

## ***Preamble to AUASB Standards***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be received by no later than 31 July 2021. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## **Formal Submissions**

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ED 2021-2

The AUASB issues Exposure Draft ED 2021-2 of proposed Auditing Standard ASA 101 *Preamble to AUASB Standards* (~~Preamble~~) pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent non-corporate Commonwealth entity of the Australian Government 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 *Legislation 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 Proposals

~~The Preamble is the primary interpretive document for AUASB Standards. It sets out the intentions of the AUASB as to how AUASB Standards are to be understood, interpreted and applied.~~

~~AUASB Standards are to be read and applied in conjunction with the Preamble.~~

~~In particular, the Preamble addresses:~~

- ~~(a) — the authority of each paragraph type found within AUASB Standards; and~~
- ~~(b) — the meaning of certain terms included in AUASB Standards.~~

~~The proposed ASA 101 will~~The AUASB is proposing to replace *Auditing Standard* ASA 100 *Preamble to AUASB Standards* issued in 2006 (F2006L01321) and *Auditing Standard* ASA 101 *Preamble to Australian Auditing Standards* issued in 2009 (F2009L04062) with an updated comprehensive Preamble that will apply to all AUASB Standards (Revised ASA 101).

~~ASA 100 was issued in April 2006 as part of the suite of legally enforceable standards issued by the AUASB under the authority given to it through the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9 amendments). To improve the legal enforceability of the Standards issued for the purposes of the CLERP 9 amendments, the AUASB sought legal advice and undertook a process to re-draft standards for legislative purposes. ASA 100 was published to elaborate on the Authority Statements included in the revised standards and set out the intentions of the AUASB, as to how the redrafted AUASB Standards were to be understood, interpreted and applied.~~

~~ASA 100 was repealed from the Federal Register of Legislation in November 2020 but will be preserved on the AUASB website for the purposes of ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.~~

~~ASA 100 applied to the full suite of standards issued by the AUASB comprising: *Auditing Standards* (ASAs); *Standards on Review Engagements* (ASREs); *Standards on Assurance Engagements* (ASAEs); and *Standards on Related Services* (ASRSs).~~

~~The current ASA 101 applies to all ASAs. ASA 101 was issued in October 2009 in response to the redrafting of the AUASB Standards in clarity format. The “Clarity Project” initiated by the IAASB aimed to enhance the clarity, and thereby the consistent application, of the International Standards on Auditing through a number of fundamental changes, including clarifying obligations imposed by the requirements in standards, setting objectives for each standard and improving the overall readability~~

~~and understandability through restructure and drafting changes. The purpose of ASA 101 in 2009 was to set out mandatory components additional to those found elsewhere in the ASAs.~~

~~Upon its issue in 2009, ASA 101 superseded ASA 100 to the extent that ASA 100 applied to ASAs. The AUASB intended for ASA 100 to remain in force for a period after 1 January 2010 (the operative date for ASA 101) whilst the pre-clarity ASAs remained operative. The Explanatory Memorandum accompanying this proposed Auditing Standard provides an overview of the proposed amendments to the current ASA 101.~~

~~The AUASB is proposing to amend ASA 101 as follows:~~

- ~~(a) — expand its application to cover all AUASB Standards;~~
- ~~(b) — remove requirements included elsewhere in AUASB Standards;~~
- ~~(c) — include additional explanatory material, for example from the repealed ASA 100, which the AUASB considers will improve stakeholder understanding of the key elements of AUASB Standards; and~~
- ~~(d) — make other updates to the Standard to bring its content up to date.~~

## **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for engagements with financial reporting periods commencing on or after 1 October 2021. Early adoption of this Auditing Standard is permitted prior to this date.

## **Main changes from existing ASA 101 *Preamble to Australian Auditing Standards* (October 2009)**

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 101 *Preamble to Australian Auditing Standards* (October 2009), are included in the Explanatory Memorandum.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 101 no later than 31 July 2021.

The AUASB is seeking comments from stakeholders on the following questions:

1. Do you support the introduction of the proposed revised ASA 101? If not, why not?  
The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the matters below. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.
2. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where these costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to fees); and
  - c. Whether expected costs outweigh the benefits to the users of assurance services?
6. Are there any other significant public interest<sup>1</sup> matters that stakeholders wish to raise?

The AUASB asks that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcomes any other comments which are not specifically addressed by the questions above.

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<sup>1</sup> The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements* expands upon what the "public interest" means to the AUASB and provides a useful frame of reference for the AUASB to assess whether its standard-setting process is appropriate and responsive to the public interest. See Appendix 1 of the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

**AUTHORITY STATEMENT**

Auditing Standard ASA 101 *Preamble to AUASB Standards* is set out in paragraphs 1 to A55.

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 101 *Preamble to AUASB Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

## **Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

~~However, W~~here relevant, the AUASB has aligned the wording of this Auditing Standard with the IAASB's *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

# AUDITING STANDARD ASA 101

## *Preamble to AUASB Standards*

### Application

1. This Auditing Standard applies to:
  - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001* (Corporations Act); (Ref: Para. A5-A6; A30-A32)
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other financial information;
  - (d) other assurance engagements;
  - (e) related services engagements; and
  - (f) a firm required to comply with ASQM 1 ~~*Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*~~.<sup>2</sup>

### Operative Date

2. This Auditing Standard is operative for engagements with financial reporting periods commencing on or after 1 October 2021. Early adoption of this Auditing Standard is permitted prior to this date.

### Introduction

#### Scope of this Auditing Standard

3. This Auditing Standard sets out ~~the intentions of the AUASB as to~~ how AUASB Standards are to be understood, interpreted and applied.
4. AUASB Standards are to be read and applied in conjunction with this Auditing Standard. (Ref: Para. A1-A2)

#### Standards issued by the AUASB (Ref: Para. A3-A25)

5. The AUASB derives its functions and powers under section 227B of the *Australian Securities and Investments Commission Act 2001*. The AUASB:
  - (a) makes Auditing Standards under section 336 of the Corporations Act for the purposes of the corporations legislation;<sup>3</sup> and
  - (b) formulates auditing and assurance standards for other purposes.<sup>4</sup>

<sup>2</sup> Or ASQC 1, as applicable. See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, issued in March 2021, replaces Auditing Standard 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* from 15 December 2022.

<sup>3</sup> Pursuant to section 227B(1)(a) of the ASIC Act.

<sup>4</sup> Pursuant to section 227B(1)(b) of the ASIC Act.

6. ‘Auditing and assurance standards for other purposes’ consists of standards that are designed for subject-specific areas. They include, for example, assurance engagements that relate to:
- reviews (other than a review by the independent auditor of the entity, of interim financial information, including interim financial reports, prepared for other purposes);
  - evaluating the efficiency and/or effectiveness of an entity’s activities;
  - prospective financial information; and
  - the effectiveness of internal controls.
7. The AUASB issues the following types of standards (AUASB Standards) pursuant to its mandate under section 227B of the ASIC Act:
- (a) Australian Standards on Quality Management (ASQMs);<sup>5</sup>
  - (b) Australian Auditing Standards (ASAs);<sup>6</sup>
  - (c) Standards on Review Engagements (ASREs);<sup>7</sup>
  - (d) Standards on Assurance Engagements (ASAEs); and
  - (e) Standards on Related Services (ASRSs).
8. AUASB Standards do not address all the responsibilities of the assurance practitioner<sup>8</sup> that may exist in legislation, regulation or otherwise in connection with engagements that fall within the scope of AUASB Standards. ~~Such responsibilities may differ from those established in AUASB Standards. It is the responsibility of the assurance practitioner to ensure compliance with all relevant legal, regulatory or professional obligations.~~

## Objective

9. The objective of the assurance practitioner is to use this Auditing Standard in order to understand, interpret and apply AUASB Standards.

## Definitions

10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Assurance practitioner means an individual, firm<sup>9</sup>, or other organisation, whether in public practice, industry and commerce, or the public sector, conducting assurance engagements or related services engagements<sup>10</sup>.
  - (b) AUASB Standards means standards issued by the AUASB, comprising:

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<sup>5</sup> For legislative purposes, ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and ASQM 2 *Engagement Quality Reviews* are included in legislation as “Auditing Standards” – see paragraph 10(d) of this Preamble.

<sup>6</sup> Defined in paragraph 10(c) of this Preamble.

<sup>7</sup> For legislative purposes, ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*, are included in legislation as “Auditing Standards” – see paragraph 10(d) of this Preamble.

<sup>8</sup> Defined in paragraph 10(a) of this Preamble.

<sup>9</sup> ~~Firm means a sole practitioner, partnership, corporation or other entity of assurance practitioners, or public sector equivalent. The definition of “firm” in relevant ethical requirements may differ from the definition set out in this Auditing Standard.~~

<sup>10</sup> Related services engagements include engagements to perform agreed-upon procedures. The term ‘assurance practitioner’ is referred to in ASRS 4400 *Agreed-Upon Procedures Engagements* as ‘practitioner’.

- (i) Australian Auditing Standards (ASAs) – as defined in paragraph 10(c);
  - (ii) Standards on Review Engagements (ASREs);
  - (iii) Standards on Assurance Engagements (ASAEs); and
  - (iv) Standards on Related Services (ASRSs).
- (c) Australian Auditing Standards (ASAs) means the suite of auditing standards issued by the AUASB, comprising:
  - (i) Auditing Standards made under section 336 of the Corporations Act – as defined in paragraph 10(d);
  - (ii) *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
  - (iii) *ASA 810 Engagements to Report on Summary Financial Statements*.
- (d) Auditing Standards means auditing standards made under section 336 of the Corporations Act, and include:
  - (i) ASQM 1;
  - (ii) *ASQM 2 Engagement Quality Reviews*;
  - (iii) *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*; and
  - (iv) *ASRE 2415 Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*.

~~(e) Firm means a sole practitioner, partnership, corporation or other entity of assurance practitioners, or public sector equivalent.<sup>11</sup>~~

## Requirements

11. The assurance practitioner shall apply AUASB Standards in conjunction with paragraphs 12 and 13 of this Auditing Standard.

### Authority of the Paragraphs in AUASB Standards (Ref: Para. A26-A55)

#### Mandatory Components (Ref: Para. A28-A44, A55)

12. The assurance practitioner shall apply the mandatory components of AUASB Standards relevant to the engagement. The mandatory components are included in each AUASB Standard under the headings listed below:
- (a) Application ~~(paragraph Aus 0.1)~~. (Ref: Para. A28-A32)
  - (b) Operative Date. (Ref: Para. A33-A35)
  - (c) Objective(s). (Ref: Para. A36)
  - (d) Definition(s). (Ref: Para. A37)

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<sup>11</sup> ~~The definition of “firm” in relevant ethical requirements may differ from the definition set out in this Preamble.~~

- (e) Requirements. (Ref: Para. A38-A44)

**Explanatory Material** (Ref: Para. A45-A55)

- 13. The assurance practitioner shall have an understanding of the entire text of an AUASB Standard, including its application and other explanatory material, to understand its objectives and to apply the mandatory components of the standard properly. The explanatory material is included in each standard under the headings listed below (where applicable):

- (a) Conformity with International Standards. (Ref: Para. A45-A49)
- (b) Application. (Ref: Para. A28, A32)~~(paragraph Aus 0.2)~~.
- (c) Introduction. (Ref: Para. A50)
- (d) Application and Other Explanatory Material. (Ref: Para. A51-A53)
- (e) Appendices. (Ref: Para. A54)

Explanatory material does not create or extend mandatory components.

## **Application and Other Explanatory Material**

### **Scope of this Auditing Standard** (Ref: Para. 3-4)

#### **“Authority Statement” included in AUASB Standards**

- A1. This Auditing Standard forms an important part of the legal and regulatory framework of AUASB Standards. AUASB Standards are to be read in conjunction with this Auditing Standard.
- A2. All AUASB Standards contain an “Authority Statement”. The purposes of the Authority Statement are to:
- (a) link the issuance of each individual AUASB Standard to the mandating legislation;
  - (b) identify the paragraphs that comprise the AUASB Standard; and
  - (c) set out the requirement to read the AUASB Standard in conjunction with this Auditing Standard.

#### **Standards issued by the AUASB** (Ref: Para. 5-8)

- A3. The AUASB issues the following types of standards pursuant to its mandate under section 227B of the ASIC Act:
- (a) Australian Standards on Quality Management (ASQMs)  
  
ASQMs<sup>12</sup> apply to firms in respect of all engagements to which AUASB Standards apply.  
  
The authority of ASQMs is set out in the introduction to each ASQM.<sup>13</sup>
  - (b) Australian Auditing Standards (ASAs)  
  
ASAs, whilst developed in the context of financial report audits, are to be applied also, as appropriate, to all audits of other historical financial information.  
  
The authority of the suite of ASAs is set out in ASA 200<sup>14</sup>. ASA 200 deals with the auditor’s overall responsibilities when conducting an audit of a financial report in accordance with ASAs. Specifically, it sets out the overall objectives of the auditor, and explains the nature and scope of an audit designed to enable the auditor to meet those objectives. It also explains the scope, authority and structure of the ASAs, and includes requirements establishing the general responsibilities of the auditor applicable in all audits, including the obligation to comply with the ASAs.  
  
The ASAs, taken together, provide the standards for the auditor’s work in fulfilling the overall objectives of the auditor. The ASAs deal with the general responsibilities of the auditor, as well as the auditor’s further considerations relevant to the application of those responsibilities to specific topics.

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<sup>12</sup> For legislative purposes, ASQM 1 and ASQM 2 are included in legislation as “Auditing Standards”.

<sup>13</sup> See ASQM 1, paragraph 12, and ASQM 2, paragraph 10, under the heading “Authority of this ASQM”.

<sup>14</sup> See ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.

(c) Standards on Review Engagements (ASREs)

ASREs<sup>15</sup> are to be applied to the review of a financial report and the review of other historical financial information.

The authority of ASREs is set out in the introduction to each ASRE.<sup>16</sup>

(d) Standards on Assurance Engagements (ASAEs)

ASAEs are to be applied to assurance engagements dealing with subject matters other than historical financial information.<sup>17</sup>

ASAE 3000<sup>18</sup> explains the scope, authority and structure of the ASAEs, and includes requirements regarding the conduct of an assurance engagement in accordance with ASAEs.<sup>19</sup>

Where a subject-matter specific ASAE is relevant to the subject matter of a particular engagement, that ASAE applies in addition to ASAE 3000. The introduction to each subject-matter specific ASAE sets out the relationship of the ASAE with ASAE 3000.

(e) Standards on Related Services (ASRSs)

ASRSs are to be applied when an assurance practitioner is engaged to undertake engagements other than assurance engagements covered by ASAs, ASREs or ASAEs.<sup>20</sup>

The authority of ASRSs is set out in the introduction to each ASRS.<sup>21</sup>

- A4. The scope, operative date and any specific limitation of the applicability of a specific AUASB Standard, is made clear in each standard.

**Auditing Standards made under Section 336 of the Corporations Act**

- A5. Auditing Standards made under section 336 of the Corporations Act apply to:

- (a) an audit of a financial report for a financial year, or an audit or review<sup>22</sup> of a financial report for a half-year, prepared in accordance with Part 2M.3 of the Act;
- (b) an audit conducted under Part 7.8 of the Act;
- (c) an audit of a financial report, or a complete set of financial statements, prepared for any other purpose;

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<sup>15</sup> For legislative purposes, ASRE 2410 and ASRE 2415 are included in legislation as “Auditing Standards”:

<sup>16</sup> For example, see ASRE 2400 *Review of a financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, paragraphs 9-12.

<sup>17</sup> Examples of such subject matters include the efficiency and/or effectiveness of an entity’s activities, prospective financial information and the effectiveness of internal controls. The AUASB’s *Framework for Assurance Engagements*, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding ASAEs.

<sup>18</sup> See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

<sup>19</sup> See ASAE 3000, “Introduction” (paragraphs 1-8) and “Conduct of an Assurance Engagement in Accordance with ASAEs” (paragraphs 14-20).

<sup>20</sup> Examples of financial and non-financial subject matters on which Standards on Related Services may be applied include: Agreeing the eligibility of expenditures claimed from a funding program; Recalculating revenues for determining royalties, rent or franchise fees based on a percentage of revenues; Confirming the calculation of capital adequacy ratios for regulatory authorities; Observation of the destruction of fake or defective goods reported to a regulatory authority; and Tracing data generating processes for lottery draws reported to a regulatory authority.

<sup>21</sup> For example, see ASRS 4400, paragraphs 7-10. Where this information is not included in the introduction of an ASRS, for example ASRS 4450 *Comfort Letter Engagements*, relevant terms are to be interpreted in a directly analogous way to how they are explained in the context of ASRS 4400.

<sup>22</sup> For legislative purposes, ASRE 2410 and ASRE 2415 are included in legislation as “Auditing Standards”.

- (d) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose; and
  - (e) a firm required to comply with ASQM 1.
- A6. Although ~~the~~ Auditing Standards are written mainly in the context of an external audit of a financial report,<sup>23</sup> they apply also, adapted as necessary, to the audit of other historical financial information.

### **Compliance and Enforcement**

- A7. ~~The extent of compliance required with AUASB Standards is determined by the legislative or regulatory requirements of relevant industry regulators, and/or an entity's constitution or other governing documents, in conjunction with the application paragraphs of the standards~~AUASB Standards are not legally binding in all contexts:
- Standards made and issued under section 336 of the Corporations Act for the purposes of the corporations legislation have ~~legal~~the status ~~of law and must be complied with under the Act.~~<sup>24</sup> ~~These standards are classified as disallowable legislative instruments under the Legislation Act 2003.~~<sup>25</sup> Where engagements covered by these standards are undertaken for the purposes of complying with the Corporations Act, full compliance is required as a matter of law.<sup>26</sup>
  - Auditing and assurance standards may also be issued or used for other purposes. ~~These standards do not have legal effect under the Corporations Act itself but may be legally enforceable under other legislation or authority.~~ Where auditing and assurance standards are used for purposes other than complying with the Corporations Act, compliance with those standards may not be required as a matter of law. There are, however, circumstances in which compliance is required by other legislation, regulatory or contractual arrangements.
- A8. Auditing Standards issued by the AUASB under the Corporations Act, are legally enforceable by the Australian regulator – the Australian Securities and Investments Commission (ASIC). ASIC conducts regular inspection programmes as an integral part of its enforcement responsibilities.
- A9. Through the standards issued by the Accounting Professional & Ethical Standards Board (APESB), members of the Australian Professional Accounting Bodies are compelled to comply with the requirements of AUASB Standards.<sup>27</sup>
- A10. Member compliance is enforced through the inspection programmes of the Professional Accounting Bodies, which are also responsible for member disciplinary action.

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<sup>23</sup> Reference to a 'financial report' includes not only a financial report as defined under Part 2M.3 of the Act, but also a financial report prepared for other purposes. Financial reports required by Part 2M.3 of the Corporations Act are:

- the annual financial report; and
- the half-year financial report (for certain entities).

<sup>24</sup> ~~These standards are classified as disallowable legislative instruments under the Legislation Act 2003. The AUASB has adopted certain drafting principles in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the Legislation Act 2003. Section 307A of the Corporations Act requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act, in accordance with Auditing Standards.~~

<sup>25</sup> ~~Section 307A of the Corporations Act requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act, in accordance with Auditing Standards. The AUASB has adopted certain drafting principles in making Auditing Standards under the Australian regulatory environment, wherein the Auditing Standards are legally enforceable and registered as legislative instruments under the Legislation Act 2003.~~

<sup>26</sup> Section 307A of the Corporations Act requires auditors to conduct audits and reviews of financial reports prepared under Part 2M.3 of the Act in accordance with Auditing Standards.

<sup>27</sup> See APES 210 *Conformity with Auditing and Assurance Standards*, issued by the APESB.

### **Type of Entity**

A11. AUASB Standards are:

- (a) neutral with respect to the sector and size of the entity subject to the engagement; and
- (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an external firm in both the public and private sectors.

A12. The AUASB generally does not set industry or sector specific standards but may from time to time produce industry or sector specific guidance materials. ~~However, w~~Where necessary, entity sector and size considerations are included, and identified, in the body of the relevant AUASB Standard.

A13. AUASB Standards do not take into account any specific circumstances affecting entities that are subject to the engagement.

### **Public Sector Engagements**

A14. AUASB Standards are relevant to engagements in the public sector. When appropriate, additional considerations specific to public sector entities are included within the ~~“a~~Application and ~~e~~Other ~~e~~Explanatory ~~m~~Material” section of each standard.

A15. The responsibilities of public sector assurance practitioners may be affected by the ~~engagement’s~~ mandate applying to the engagement, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an engagement in accordance with the AUASB Standards. These additional responsibilities are not dealt with in the AUASB Standards. They may be dealt with in guidance developed by government audit agencies<sup>28</sup>.

### **Applying AUASB Standards**

#### **Professional Judgement**

A16. Professional judgement is essential to the proper conduct of engagements that fall within the scope of AUASB Standards. This is because interpretation of relevant ethical requirements and relevant AUASB Standards and the informed decisions required throughout the engagement cannot be made without the application of relevant training, knowledge and experience to the facts and circumstances.<sup>29</sup>

#### **Professional Scepticism**

~~A17. Auditing and assurance standards require an assurance practitioner to adopt an attitude of professional scepticism in applying the relevant AUASB Standards to an engagement. For further information, refer to Framework for Assurance Engagements.<sup>30</sup>~~

### **Ethical Principles and Quality Management Standards**

~~A18.~~A17. Compliance with ethical principles, including independence requirements, and quality management within firms that perform engagements to which AUASB Standards apply, ~~and~~

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<sup>28</sup> In Australia the term “government audit agencies” refers to State, Territory or Commonwealth Auditors-General.

<sup>29</sup> The term “professional judgement” is defined in the AUASB Glossary in the context of different types of AUASB Standards. For assurance engagements, see *Framework for Assurance Engagements*, paragraphs 56-60. For related services engagements, see ASRE 4400, paragraphs 13(j) and 18.

<sup>30</sup> The term ‘professional scepticism’ is defined in the AUASB Glossary in the context of different types of AUASB Standards. Also, see *Framework for Assurance Engagements*, paragraphs 51-55.

~~compliance with ethical principles, including independence requirements,~~ are widely recognised as being in the public interest and an integral part of a high-quality engagement.<sup>31</sup>

#### *Relevant Ethical Requirements*

~~A19-A18.~~ References to compliance with relevant ethical requirements are included in certain requirements and explanatory material paragraphs in AUASB Standards. AUASB Standards are to be read in conjunction with relevant ethical requirements, as defined in ASA 102.<sup>32</sup> Law, regulation or relevant ethical requirements may establish responsibilities for the assurance practitioner beyond those described in AUASB Standards.

#### *Quality Management Standards*

~~A20-A19.~~ ASQM 1 deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

~~A21-A20.~~ Engagement quality reviews form part of the firm's system of quality management and:

- (a) ASQM 1 deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
- (b) ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

~~A22-A21.~~ AUASB Standards are premised on the basis that a firm is subject to the ASQMs, and include requirements regarding quality management at the engagement level.<sup>33</sup>

#### **Amendments to AUASB Standards**

~~A23-A22.~~ AUASB Standards may require amendment for a variety of reasons, such as consequential and conforming amendments that is required as a result of changes made to other AUASB Standards.

#### *Consequential and Conforming Amendments*

~~A24-A23.~~ As standards made under section 336 of the Corporations Act are legislative instruments, they can only be amended by another legislative instrument. An "Amending Standard" is a legislative instrument made by the AUASB for the sole purpose of amending other legislative instruments (referred to as the "principal standard"). Amending Standards provide an efficient way of processing amendments which affect a number of standards without reissuing all the standards affected.

#### *Compilations*

~~A25-A24.~~ ~~Compilations~~ The compiled version of a standard reflects the content of a standard, considering all amendments that have become effective since the principal standard was originally made. Compilations are a requirement of the *Legislation Act -2003* and are required to be lodged with the Office of Parliamentary Counsel for registration on the Federal Register of Legislation. A compilation is not a legislative instrument.<sup>34</sup>

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<sup>31</sup> For further details, refer to *Framework for Assurance Engagements*, paragraphs 5-9.

<sup>32</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>33</sup> For example, see ASA 220 *Quality Management for an Audit of Financial Statements*.

<sup>34</sup> For example, a standard might have a principal version issued in 2015 amended by Amending Standards (*legislative instruments*) that become effective, one each year, from 2016. Therefore, in 2020 the compiled version of the standard will reflect the amendments effective from 2016 through to 2020.

~~A26-A25.~~ Where the AUASB issues a compiled version of a standard:

- (a) the title page of the standard indicates that it is a compiled version of the standard and shows the date of the compilation and the relevant Amending Standards that have been taken into account;
- (b) a “Compilation Details” section is included in the standard which includes the following information:
  - (i) a “Table of Standards”, which sets out details of both the principal standard and subsequent Amending Standards, including the dates of both the principal and Amending Standards (date made, operative date and date registered on the Federal Register of Legislation);
  - (ii) a “Table of Amendments”, which provides details of amendments to the principal standard (paragraph of standard affected, how affected and a paragraph reference to the relevant Amending Standard); and
  - (iii) a statement that the compilation is not a separate Auditing Standard made by the AUASB but a representation of the relevant Standard which incorporates the original standard and subsequent amendments.
- (c) the Operative Date paragraph in the standard includes a reference to the Compilations Details section of the standard, for details about the operative dates of paragraphs changed or added by an Amending Standard. (Ref: Para. A33(a))

#### **Authority of the Paragraphs in AUASB Standards** (Ref: Para. 12-13)

~~A27-A26.~~ The paragraphs in AUASB Standards do not have equal authority. AUASB Standards consist of paragraphs that are either:

- (a) mandatory components; or
- (b) explanatory material.

~~A28-A27.~~ Where an AUASB Standard does not include specific information to explain the status and authority of the paragraphs included within the standard, the terms explained below (for example, “Objectives”, “Requirements”, “Application and Other Explanatory Material”), are to be interpreted in a directly analogous way to how they are explained in the context of financial report audits in ASA 200.

#### **Mandatory Components** (Ref: Para. 12)

“Application” Paragraphs (Ref: Para. 12(a), 13(b))

~~A29-A28.~~ Each AUASB Standard contains a mandatory “Application” paragraphs that, in part or in whole, form part of the mandatory components of a standard. The standard may also include an additional “Application” paragraph that forms part of the explanatory material of the standard, to describe other engagements the standard may be applied to, adapted as necessary.

~~A30-A29.~~ The “Application” paragraph or paragraphs of a standard identify the scope of the AUASB Standard.

Engagements under the Corporations Act (Ref: Para. 1(a); A5-A6)

~~A31.~~A30. Auditing Standards made under section 336 of the Corporations Act<sup>35</sup> contain a mandatory ~~“a~~“Application” paragraphs (shown as paragraph “Aus 0.1”) relating to:

- (a) 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; and
- (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.

~~A32.~~A31. The “Application” paragraph in each Auditing Standard that refers to audits or reviews conducted in accordance with the Corporations Act applies specifically to:

- (d) an audit or a review conducted under Part 2M.3 of the Act; and
- (e) an audit conducted under Part 7.8 of the Act.

~~A33.~~A32. ~~When an Auditing Standard is used for the audit of financial information that is not in the form of a financial report, the application paragraph in that Auditing Standard is excluded from the mandatory components. Auditing Standards may also include an additional “Application” paragraph (shown as paragraph “Aus 0.2”) that forms part of the explanatory material of the standard to explain that, although the Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, adapted as necessary, to the audit of other historical financial information.~~

*Operative Date* (Ref: Para. 12(b))

~~A34.~~A33. The operative date stipulates the date from which the AUASB Standard is to be applied. The operative date is stated in relation to a financial reporting period. The requirements of an AUASB Standard remain in force until:

- (a) the operative date of any amendment to those requirements (Ref: Para. A22-A25));
- (b) in relevant circumstances, the early adoption of such amendments; or
- (c) the AUASB Standard is withdrawn by the AUASB.

~~A35.~~A34. Unless otherwise stated in an AUASB Standard, the assurance practitioner is permitted to apply a standard before the operative date specified therein. Where an AUASB Standard is early adopted, all relevant conforming and consequential amendments must also be early adopted.

~~A36.~~A35. Where an assurance practitioner is conducting an audit of a financial report and elects to early adopt an auditing standard made under section 336 of the Corporations Act, in accordance with section 336(4), that election must be recorded in the audit report.

*Objective(s)* (Ref: Para. 12(c))

~~A37.~~A36. Each AUASB Standard contains an objective or objectives which provide the context in which the requirements of the standard are set and; establishes the desired outcome to be achieved by the assurance practitioner. The proper application of the requirements in the standard is expected to provide a sufficient basis for the practitioner’s achievement of the objective(s) of the standard and is intended to assist the assurance practitioner in understanding what needs to be accomplished and, where necessary, the appropriate means of doing so.

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<sup>35</sup> With the exception of ASA 101, ASA 102, ASQM 1, ASQM 2, ASRE 2410 and ASRE 2415.

*Definitions* (Ref: Para. 12(d))

~~A38.~~A37. Definitions, contained within AUASB Standards, and/or contained within the *AUASB Glossary* (as issued from time to time), provide a description of the meanings attributed to certain terms for the purposes of the AUASB Standards. These definitions are provided ~~to assist in for the~~ consistent application and interpretation of standards, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The *AUASB Glossary* contains a complete listing of terms defined in AUASB Standards.

*Requirements* (Ref: Para. 12(e))

~~A39.~~A38. Paragraphs that impose obligations on the assurance practitioner ~~The requirements of each AUASB Standard~~ are contained in a separate “Requirements” section of each standard and expressed using the word “shall”. Requirements are designed to enable the assurance practitioner to meet the stated objective(s) of an AUASB Standard. In certain circumstances, requirements are legally binding and enforceable.

~~A40.~~A39. The assurance practitioner applies the requirements in the context of the other material included in the AUASB Standard (for example, introductory material, definitions and application and other explanatory material). The entire text of an AUASB Standard, therefore, is relevant to an understanding of the objectives stated in an AUASB Standard and the proper application of the requirements of the ~~AUASB Standard~~. Although the assurance practitioner has a responsibility to consider the entire text of the standard in carrying out the engagement, application and explanatory material does not in itself impose a requirement.

~~A41.~~A40. For information on how the requirements in AUASB Standards are to be applied for:

- (a) audits and reviews of historical financial reports and information – see ASA 200;<sup>36</sup>
- (b) assurance engagements other than audits or reviews of historical financial information – see ASAE 3000.<sup>37</sup>

These standards also include requirements and explanatory material on the limited circumstances where the assurance practitioner may judge it necessary to depart from a relevant requirement in a standard. ~~The need for the assurance practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.~~

A41. The assurance practitioner is required to comply with all AUASB Standards relevant to an engagement. Furthermore, AUASB Standards require compliance with each requirement of a relevant standard unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional and the condition does not exist.<sup>38</sup>

A42. When, in the circumstances of an engagement:

- (a) an entire AUASB Standard is not relevant; or
  - (b) a requirement is not relevant because it is conditional and the condition does not exist,
- there is no requirement to document the reason(s) why the requirement is not relevant.<sup>39</sup>

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<sup>36</sup> See ASA 200, paragraphs 18-24.

<sup>37</sup> See ASAE 3000, paragraphs 14-19.

<sup>38</sup> See ASA 200, paragraph 22 and ASAE 3000, paragraph 17.

<sup>39</sup> See ASA 230 *Audit Documentation*, paragraph A19, which explains that the requirement to document an inability to comply with relevant requirements, applies only to requirements that are relevant in the circumstances.

- A43. However, for audits or reviews conducted in accordance with the Corporations Act, where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the practitioner from complying with an essential procedure contained within a relevant requirement, the practitioner is required under ASA ~~200-230~~<sup>40</sup> or ASRE 2410<sup>41</sup>, as applicable, to document:
- (a) the circumstances surrounding the inability to comply;
  - (b) the reasons for the inability to comply; and
  - (c) justification of how alternative procedures achieve the objectives of the requirement.
- A44. In the case of a review and related services engagement, the assurance practitioner is required to apply the requirements contained only in the specified standard applicable to that engagement, in conjunction with this Preamble to AUASB Standards. There is no requirement to apply the requirements of other AUASB Standards. However, reference to ASAs may be helpful to provide guidance.

**Explanatory Material** (Ref: Para. 13)

*Conformity with International Standards* (Ref: Para. 13(a))

- A45. The Conformity paragraphs explain the relationship of an AUASB Standard with its equivalent international standard issued by the IAASB. ~~The AUASB takes the position that an~~ An AUASB Standard conforms to the equivalent international standard when:
- (a) the requirements of the AUASB Standard correspond with those in the equivalent international standard or the AUASB Standard contains additional requirements; and
  - (b) the explanatory material is substantially the same as the equivalent international standard or the AUASB Standard contains additional explanatory material.
- A46. The Conformity paragraphs in AUASB Standards include necessary differences from the equivalent international standard relating to terminology, referencing and Australian regulatory requirements.<sup>42</sup>
- A47. When an AUASB Standard and the equivalent international standard conform, the Conformity paragraphs contain a statement to this effect.
- A48. When an AUASB Standard and the equivalent international standard are not equivalent, the Conformity paragraphs detail the main differences.
- A49. The Conformity paragraphs in each AUASB Standard assist the assurance practitioner to determine to what extent (if any) compliance with AUASB Standards might enable also the engagement to be conducted in compliance with international standards. It is the responsibility of the assurance practitioner to determine which standards apply to the particular engagement and circumstances. Furthermore, where appropriate, the Conformity paragraphs contain the following sentence:
- “Compliance with this Standard enables compliance with the equivalent international standard”.

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<sup>40</sup> See ASA 230 *Audit Documentation*, paragraph Aus 12.1.

<sup>41</sup> See ~~ASA 200, paragraph Aus 23.1~~ and ASRE 2410, paragraph 7.

<sup>42</sup> Refer to the *AUASB Policy and Process for International Conformance and Harmonisation of Standards* for details of the principles and process the AUASB applies in considering modifications to IAASB Standards.

*Introduction* (Ref: Para. 13(c))

- A50. Introductory material provides context relevant to a proper understanding of an AUASB Standard. Introductory material may include, as needed, such matters as explanation of the:
- purpose and scope of the Standard, including how the Standard relates to other AUASB Standards;
  - subject matter of the Standard; and
  - respective responsibilities of the assurance practitioner and others in relation to the subject matter of the Standard.

*Application and Other Explanatory Material* (Ref: Para. 13(d))

- A51. Included within the requirements section of a standard are references to paragraphs in the “aApplication and eOther eExplanatory mMaterial” section of the standard. Such references do not extend or create requirements.
- A52. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying the requirements out. In particular, it may:
- explain more precisely what a requirement means or is intended to cover; and
  - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an AUASB Standard.

- A53. Where appropriate, additional considerations specific to public sector and smaller entity engagements are included within the “aApplication and eOther eExplanatory mMaterial” section of the standard. These additional considerations assist in the application of the requirements of the standards in conducting such engagements. However, Tthey do not; however, limit or reduce the responsibility of the assurance practitioner to apply and comply with the requirements of AUASB Standards.

*Appendices* (Ref: Para. 13(e))

- A54. Appendices, ~~which~~ form part of the application and other explanatory material, ~~are an integral part of a standard~~. The purpose and intended use of an appendix are explained in the body of the related standard or within the title and introduction of the appendix itself.

*AUASB Drafting Conventions* (Ref: Para. 12-13)

- A55. The following drafting principles and conventions apply to AUASB Standards:
- (a) The requirements of each AUASB Standard are contained in a separate “Requirements” section of a standard. The requirements of an AUASB Standard are expressed using the word “shall” to denote the obligations an assurance practitioner is required to comply with in achieving the objective or objectives stated in the standard, and expressed using the word “shall”. The requirements paragraphs support the objectives of the standard;
  - (b) Paragraphs containing application and other explanatory material are designated with the letter “A”.
  - (c) The present tense of verbs is used in explanatory material when it is the best form of expression. Use of the present tense does not create or imply requirements. The

present tense is used in examples and other explanatory material that relate to professional judgement and professional scepticism.

- (d) Requirements that exist in another AUASB Standard are anchored back to the original requirement (for example, using the phrase “in accordance with”) when repetition or a cross reference is considered necessary for understanding and context.
- (e) Australian additions or modifications to an equivalent IAASB Standard are marked as Australian paragraphs or additional appendices commencing with an “Aus” prefix.
- (f) Deletions from an equivalent IAASB Standard are clearly noted as “Deleted by the AUASB. Refer Aus ...”.
- (g) The extent of differences between an AUASB Standard and its equivalent international standard are detailed in the “Conformity with International Standards” section of the standard.
- (h) The word “including”, as used in AUASB Standards, means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

~~A56. — Appendix 1 provides a summary of words and phrases commonly used in AUASB Standards.~~

## Appendix 1

(Ref: Para. A57)

### Words and Phrases commonly used in AUASB Standards

The following words and phrases are used in AUASB Standards for the respective stated purposes (alphabetically):

- (a) ~~explanatory guidance~~ means suggested or typical audit procedures, practical examples and other explanatory details and procedures that are included for the purposes of understanding, and complying with, mandatory requirements. ~~Explanatory guidance does not create or extend mandatory requirements or the auditor's obligations under AUASB Standards.~~
- (b) ~~'in accordance with...the assurance practitioner is required to...'~~ means explanatory material guidance that is directly linked to a mandatory requirement, either in the same AUASB Standard or in another AUASB Standard. ~~The phrase is used only where the wording in the explanatory material guidance is identical to that in the mandatory requirement.~~
- (c) ~~including~~ means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.
- (d) ~~mandatory requirements~~ means relevant basic principles and essential procedures that must be applied in order for the audit or review engagement to comply with AUASB Standards.
- (e) ~~ordinarily~~ means the explanatory material guidance indicates practical methods or means by which mandatory requirements may be complied with and is to be read in the following context:
  - (i) ~~where the word 'ordinarily' is used, the assurance practitioner exercises professional judgement in considering:~~
    - ~~whether the noted circumstances apply to the current audit, review or other assurance engagement; and~~
    - ~~if so, whether the suggested procedures are appropriate to perform; or~~
    - ~~where there are alternative procedures which are more appropriate, whether these alternative procedures are to be performed.~~
  - (ii) ~~the word 'ordinarily' does not create a rebuttable presumption nor a mandatory requirement.~~
- (f) ~~shall~~ means an imperative obligation on assurance practitioners when appearing in **bold-type** mandatory requirements. ~~In certain circumstances, imperative obligations are legally binding and enforceable.~~
- (g) ~~'Under...the assurance practitioner needs to...'~~ means words contained within the explanatory guidance material that highlight a linkage between mandatory requirements and the relevant explanatory material guidance that:
  - (i) ~~in part, or in whole, restates the meaning of the mandatory requirement; and~~

- (ii) ~~may describe audit or review procedures, more detailed than those contained in the relevant mandatory requirement. However, these described audit or review procedures do not create or extend mandatory requirements.~~

~~Furthermore, an assurance practitioner may judge it necessary, in order to comply with the relevant mandatory requirement, to:~~

- ~~• perform alternative audit or review procedures in place of some or all of those described in the explanatory material guidance; or~~
- ~~• perform some, but not all, of the audit or review procedures described in the explanatory material guidance.~~

~~The purpose of the linkage between the mandatory requirements and the relevant explanatory material guidance is to:~~

- ~~• direct the assurance practitioner to the relevant mandatory requirement(s); and~~
- ~~• emphasise that interpretation of the explanatory material guidance is to be made in the context of that mandatory requirement.~~
- ~~•~~



# **Explanatory Memorandum**

## **Exposure Draft 02/21**

### ***Proposed Auditing Standard ASA 101 Preamble to AUASB Standards***

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



## **Obtaining a Copy of this Explanatory Memorandum**

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **Explanatory Memorandum**

### **Exposure Draft 02/21: *Proposed Auditing Standard ASA 101 Preamble to AUASB Standards***

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#### *Important Note and Disclaimer*

This Explanatory Memorandum is issued by the AUASB to provide information to assurance practitioners about the AUASB's proposed Auditing Standard ASA 101 *Preamble to AUASB Standards*, which will replace ASA 100 *Preamble to AUASB Standards* issued in 2006 (F2006L01321) and ASA 101 *Preamble to Australian Auditing Standards* issued in 2009 (F2009L01321).

This Explanatory Memorandum does not establish or extend the requirements under existing AUASB Standards and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply with when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## **EXPLANATORY MEMORANDUM**

### **Exposure Draft 02/21: *Proposed Auditing Standard ASA 101 Preamble to AUASB Standards***

#### **Purpose**

1. The aim of this Explanatory Memorandum is to:
  - (a) provide stakeholders with information about Exposure Draft 02/21: *Proposed Auditing Standard ASA 101 Preamble to AUASB Standards* (ED 02/21), issued in June 2021; and
  - (b) seek stakeholder feedback on the Exposure Draft.

#### **Background**

2. The AUASB currently has two preambles to its standards:
  - (a) *ASA 100 Preamble to AUASB Standards*

Upon its issuance in 2006, ASA 100 applied to the full suite of standards issued by the AUASB comprising: Australian Auditing Standards (ASAs); Standards on Review Engagements (ASREs); Standards on Assurance Engagements (ASAEs); and Standards on Related Services (ASRSs).
  - (b) *ASA 101 Preamble to Australian Auditing Standards*

Upon its issuance in 2009, ASA 101 superseded ASA 100 to the extent that ASA 100 applied to ASAs.
3. ASA 100 and ASA 101 together serve as the primary interpretive documents for AUASB Standards. These standards set out how AUASB Standards are to be understood, interpreted and applied. AUASB Standards are to be read and applied in conjunction with the AUASB's two preambles.
4. In May 2020, the AUASB approved a project plan to update the AUASB's due process framework, and related policies and framework pronouncements. The AUASB's preambles were specifically identified in the plan for review and updating.
5. In September 2020, the AUASB supported a proposal to replace ASA 100 and ASA 101 with a single comprehensive preamble that will apply to all AUASB Standards; that is, to:
  - (a) expand the scope of ASA 101 to also include standards other than ASAs; and
  - (b) amend ASA 101 to improve stakeholder understanding of the key components of AUASB Standards.
6. The proposed revisions to ASA 101 have been made with the public interest at the forefront, including stakeholder useability and understanding of the AUASB Standards.
7. The proposed revised ASA 101 includes references to the new suite of Quality Management Standards, ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and ASQM 2 *Engagement Quality Reviews*, which were approved and issued by the AUASB in March 2021. ASQM 1 and ASQM 2 will replace the current ASQC 1 *Auditing Standard 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* from 15 December 2022.

*ASA 100*

8. ASA 100 was issued in April 2006 as part of the suite of legally enforceable standards issued by the AUASB under the authority given to it through the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9). To improve the legal enforceability of the standards issued for the purposes of the CLERP 9 amendments, the AUASB sought legal advice and undertook a process to re-draft standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation (AARF) to make them legally enforceable under the *Corporations Act 2001* (Corporations Act). The types of changes made to the standards included replacing the term “should” with “shall” and the inclusion of material for legislative purposes such as an “Authority Statement” which provided a mechanism to delineate between mandatory requirements and explanatory guidance within a standard. Mandatory components of AUASB Standards were identified by **bold-type** - the “pre-clarity” format of present AUASB Standards. With the exception of ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, no AUASB Standard on issue is in pre-clarity format.
9. ASA 100 was published to elaborate on the Authority Statements included in the revised standards and set out the intentions of the AUASB as to how the redrafted AUASB Standards were to be understood, interpreted and applied.

*ASA 101*

10. ASA 101 was issued in October 2009 in response to the redrafting of the AUASB Standards in “clarity” format. The “Clarity Project” initiated by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting Board of the International Federation of Accountants (IFAC), aimed to enhance the clarity, and thereby the consistent application, of the International Standards on Auditing through a number of fundamental changes, including clarifying obligations imposed by the requirements in standards, setting objectives for each standard and improving the overall readability and understandability through restructure and drafting changes. As the (revised) Australian Auditing Standards were legally enforceable, the AUASB considered it necessary for an interpretive document to form part of the suite of standards.
11. The purpose of ASA 101 in 2009 was to set out mandatory components additional to those included elsewhere in the Australian Auditing Standards<sup>1</sup>. The “Requirements” section of extant ASA 101:
  - (a) Sets out the authority of paragraphs in ASAs. The mandatory components of the ASAs are those included under the headings: “Application”, “Operative Date”, “Objective(s)”, “Definition(s)” and “Requirements”.
  - (b) Identifies the parts of the Corporations Act to which the “Application” paragraph in each Auditing Standard that refers to audits or reviews conducted in accordance with the Corporations Act applies; and
  - (c) Describes the circumstances when an auditor is not required to document the reasons why a requirement is not relevant.
12. Upon its issuance in 2009, ASA 101 superseded ASA 100 to the extent that ASA 100 applied to ASAs; ASA 101 did not fully supersede ASA 100 for other pronouncements.
13. The AUASB intended for ASA 100 to remain in force for a period after 1 January 2010 (the operative date for ASA 101) whilst the pre-clarity ASAs remained operative.

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<sup>1</sup> See ASA 101, paragraph 5.

14. ASA 100 was repealed from the Federal Register of Legislation in November 2020 but will be preserved on the AUASB website as it still applies to ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (a non ‘Force of Law’ standard).

### **Key proposals contained in ED 02/21**

15. The objectives of the key proposals contained in ED 02/21 are to:
- (a) expand the scope of ASA 101 to apply to all AUASB Standards; and
  - (b) amend ASA 101 to include additional interpretive guidance, for example from the repealed ASA 100, to improve stakeholder understanding of the key components of AUASB Standards.
16. The changes proposed in ED 02/21 are:
- (a) **Expand the scope of ASA 101 to apply to all AUASB Standards.**
    - ASA 101 currently applies only to ASAs, including ASQMs and ASREs issued as “Auditing Standards” under the Corporations Act. ASA 100 applies to all AUASB Standards other than the ASAs<sup>2</sup> (explained in paragraphs 2-14 above).
    - ED 02/21 expands the scope of extant ASA 101 to apply to all AUASB Standards (see ED 02/21, paragraph 1).
    - As ED 02/21 will apply to all AUASB Standards, the term “auditor” has been replaced with “assurance practitioner” throughout the proposed revised standard. ED 02/21 includes a definition of “assurance practitioner” in paragraph 10(a), which mirrors the definition used in ASQM 1<sup>3</sup>, paragraph Aus 16.2.
  - (b) **Clarify that the purpose of the proposed revised ASA 101 is to improve the clarity of all AUASB Standards by providing interpretative guidance applicable to all AUASB Standards**
    - ED 02/21 is being proposed in order to consolidate ASA 100 and ASA 101 into a single comprehensive Preamble that will provide interpretive guidance applicable to all AUASB Standards.
    - It therefore follows that the scope and purpose of the proposed revised ASA 101 will differ from that of extant ASA 101 that it will supersede.
      - The scope of extant ASA 101 includes setting out mandatory components additional to those included elsewhere in the Australian Auditing Standards.<sup>4</sup>
      - In contrast, the scope of ED 02/21 is limited to providing interpretive guidance as to how AUASB Standards are to be understood, interpreted and applied.<sup>5</sup>
    - The proposed revised ASA 101 will not include additional mandatory requirements (practical obligations on assurance practitioners) in addition to those included elsewhere in AUASB Standards. The AUASB has obtained independent legal advice on this matter that supports the position that specific additional requirements should be added to the relevant subject matter specific AUASB Standards (for example, by adding an “Aus” paragraph to a standard), instead of the primary (binding) section of the Preamble.

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<sup>2</sup> See ASA 101, paragraphs 5-6.

<sup>3</sup> ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagement*.

<sup>4</sup> See ASA 101, paragraph 5.

<sup>5</sup> See ED 02/21, paragraph 3.

- (c) **Move the requirement in ASA 101 (paragraph 11) that addresses the linkage to the relevant Parts of the Corporations Act to which the Auditing Standards apply (as applicable), to the “Application and Other Explanatory Material” section of the proposed standard.**
- Extant ASA 101 (paragraph 11), includes as a requirement a paragraph that identifies the relevant Parts of the Corporations Act to which the “Application” paragraph in each Auditing Standard that refers to audits or reviews conducted in accordance with the Corporations Act applies.
  - ED 02/21 includes this material in the “Application and Other Explanatory Material” section of the proposed standard (see paragraph A30-A32). The AUASB does not consider the extant paragraph 11 imposes any obligation on the assurance practitioner in addition to existing requirements contained in other Auditing Standards. Rather, the purpose of this paragraph is to provide further clarification of requirements included in Auditing Standards.
- (d) **Move the requirement in extant ASA 101 (paragraph 12) that addresses the documentation requirements when a requirement in an Auditing Standard is not relevant, to the “Application and Other Explanatory Material” section of the proposed standard.**
- Extant ASA 101 (paragraph 12), includes a specific requirement describing the circumstances when an auditor is not required to document the reason(s) why a requirement is not relevant.
  - ED 02/21 includes this paragraph in the “Application and Other Explanatory Material” section of the proposed standard (see paragraph A42), together with other related interpretive material to explain what requirements are, how requirements are drafted, how requirements are applied, and that AUASB Standards require compliance with relevant requirements.
  - As explained in paragraph 16(b) above, the purpose of ED 02/21 is limited to setting out how AUASB Standards are to be understood, interpreted and applied. Unlike extant ASA 101, ED 02/21 does not include mandatory “requirements” (practical obligations on assurance practitioners) in addition to those included elsewhere in AUASB Standards.
  - The AUASB has obtained independent legal advice on this matter that supports the position that paragraph 12 of extant ASA 101 is more appropriately placed in the “Application and Other Explanatory Material” section of ED 02/21.
- The basis for this position is that the difference in scope between extant ASA 101 and ED 02/21 determines the types of matters to be contained within the primary section of each standard. In light of the scope of extant ASA 101, mandatory requirements, such as paragraph 12, could be appropriately placed within the primary section of extant ASA 101. In contrast, the scope of the proposed revised ASA 101 does not provide for mandatory requirements to be included within the primary section of ED 02/21.
- ED 02/21 identifies the mandatory “components” of a standard that the assurance practitioner is required to apply relevant to the engagement. It also includes explanatory material to explain and clarify the purpose of application and other explanatory material included in AUASB Standards.
  - ED 02/21 identifies “requirements” as a subset of the mandatory “components” of a standard (see ED 02/21, paragraph 12).
- ED 02/21 does not include any other specific “requirements” (practical obligations on assurance practitioners) but includes application and other explanatory material to improve stakeholder understanding of “requirements” as one of the key mandatory components of AUASB Standards.

- ASA 200<sup>6</sup> and ASA 230<sup>7</sup> do not include a similar “requirement” to that set out in paragraph 12 of extant ASA 101. However, explanatory material in both standards explains that ASA 230 documentation requirements apply only to requirements that are relevant in the circumstances of the engagement – see:
    - ASA 200, paragraph A76: “ASA 230 establishes documentation **requirements** in those rare and exceptional circumstances where the auditor is unable to comply with a relevant requirement” (with a footnote reference to the **requirement** in ASA 230, paragraph Aus 12.1).
    - ASA 230 includes **explanatory material** related to paragraph Aus 12.1 clarifying in paragraph A19 that “the documentation requirement applies only to requirements that are relevant in the circumstances”.
  - The AUASB considers that the additional explanatory material included in ED 02/21, paragraphs A41-A43, provides sufficient clarification of the documentation requirements in circumstances where a requirement in a standard is not relevant.
  - As the extant ASA 101 only applies to ASAs, the existing paragraph 12 “requirement” of extant ASA 101 does not cover other AUASB Standards. The AUASB therefore considers that there is benefit in including an expanded version of paragraph 12 (from extant ASA 101) within ED 02/21, to expand the guidance to cover all AUASB Standards (see ED 02/21, paragraph A42). Independent legal advice obtained by the AUASB supports this position.
- (e) **Amend extant ASA 101 to include additional interpretive guidance, for example from the repealed ASA 100, to improve stakeholder understanding of the key components of AUASB Standards.**

ED 02/21 includes additional application and other explanatory material on the key components of AUASB Standards, including:

- (i) Relevant application and other explanatory material carried forward from ASA 100, updated as appropriate:
  - The “Introduction” to extant ASA 101 has been expanded to include relevant contextual material from ASA 100 – see ASA 100, paragraphs 2-8, 19 and 33-39.

Introductory material in ED 02/21 (see paragraphs 3-8 and A1-A25) now includes:

- Explanation of the purposes of the “Authority Statement” included in AUASB Standards (ED 02/21, paragraphs A1-A2).
- Background information on the types of standards issued by the AUASB, engagements these standards apply to, the status and authority of paragraphs included in standards, the legal status of standards, the application of professional judgement in applying AUASB Standards, as well as the requirement to comply with relevant ethical principles, including independence requirements, and quality management in conducting engagements that fall within the scope of AUASB Standards (ED 02/21, paragraph A3-A21).

Material carried forward from ASA 100 is supplemented by relevant material from, or references to, the *Foreword to AUASB Pronouncements* (paragraphs 6-9, 17-19), the IAASB’s *Preface to the*

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<sup>6</sup> ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.  
<sup>7</sup> ASA 230 Audit Documentation.

*International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (IAASB Preface) (paragraphs 5-19), ASA 200 (paragraphs 1-2, A55-A59), *Framework for Assurance Engagements* (paragraphs 5-9, 56) and ASQM 1 (paragraphs 1-5, 12).

- New content to explain the “Compilation Details” section that is included in the compiled version of an Auditing Standard, including the purpose of the tables within the Compilations Details (ED 02/21, paragraphs A22-A25).
- Explanation of the “Application” paragraph(s) included in AUASB Standards (ED 02/21, paragraphs A28-A32) – see ASA 100, paragraphs 20-24.

Paragraph A32 of ED 02/21 clarifies that Auditing Standards made under section 336 of the Corporations Act may include an additional “Application” paragraph (shown as paragraph “Aus 0.2”) that forms part of the explanatory material of the standard to explain that, although the Auditing Standards are written mainly in the context of an audit of a financial report, they apply also, adapted as necessary, to the audit of other historical financial information.

- Explanation of the “Operative Date” paragraph included in AUASB Standards (ED 02/21, paragraph A33) – see ASA 100, paragraph 25. This paragraph is now closer aligned to the wording of section 336(3) of the Corporations Act.

Additional explanatory material has been added to clarify that:

- AUASB Standards may be early adopted, unless expressly prohibited in the “Operative Date” paragraph of the standard (ED 02/21, paragraph A34). The proposed amended wording aligns with the IAASB Preface (paragraph 18), ISA 200<sup>8</sup> (paragraph A56) and section 336(4) of the Corporations Act.
- Where an assurance practitioner is conducting an audit of a financial report and elects to early adopt an Auditing Standard, in accordance with section 336(4) of the Corporations Act, that election must be recorded in the audit report (ED 02/21, paragraph A35).

The proposed amendments to ASA 101 will likely require further conforming amendments to be made to the following Auditing Standards once the revised preamble has been approved:

- ASA 200 – Amend to align the wording of paragraph A56 with that used in ISA 200, the IAASB Preface and ED 02/21 (paragraph A34).
- ASA 700 – Add an additional “Aus” paragraph to require that where an auditor is conducting an audit of a financial report and elects to early adopt an Auditing Standard, in accordance with section 336(4) of the Corporations Act, that election must be recorded in the audit report.

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<sup>8</sup> ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

- Explanation of the “Conformity with International Standards” paragraphs included in AUASB Standards with equivalent IAASB Standards (ED 02/21, paragraphs A45-A49) – see ASA 100, paragraphs 28-32.
- (ii) Relevant application and other explanatory material from ASA 200 (paragraphs A55-A78), ASAE 3000<sup>9</sup> (paragraphs A21-A28), and other relevant AUASB pronouncements<sup>10</sup>, or references to these pronouncements, where the AUASB considers this application and explanatory material will enhance stakeholder understanding of how AUASB Standards are to be understood, interpreted and applied, for example, to explain the:
  - objective(s) stated in a standard (ED 02/21, paragraph A36).
  - definitions contained within a standard and/or within the AUASB Glossary (ED 02/21, paragraph A37).
  - requirements of a standard and how requirements are to be applied, how requirements are drafted, that requirements are to be applied in the context of other material included in the standard and to clarify the documentation requirements where requirements in standards are not relevant (ED 02/21, paragraphs A38-A44).
  - purpose, status and authority of introductory material included in a standard (ED 02/21, paragraph A50).
  - purpose, status and authority of material included in the “Application and Other Explanatory Material” section of a standard (ED 02/21, paragraphs A51-A53).
  - status and authority of Appendices included in standards (ED 02/21, paragraph A54).
- (iii) AUASB Drafting Principles
  - ASA 100, paragraphs 45-48, sets out the drafting principles and conventions that have been adopted in the redrafting of AUASB Standards in 2006 in response to CLERP 9 (explained in paragraphs 8-9 of this document). Most of these principles no longer apply to AUASB Standards which have been redrafted in “clarity” format and reissued in 2009.
  - Extant ASA 101 does not include any explanation of the drafting principles applied in the redrafting of AUASB Standards in clarity format in 2009 (see paragraphs 10-11 of this document).
  - ED 02/21, paragraph A55, outlines the key principles and conventions applied in drafting AUASB Standards.
  - The IAASB, as part of its “Audit of Less Complex Entities” (LCE) project, is currently in the process of developing drafting principles and guidelines to address the complexity, understandability, scalability and proportionality (CUSP) in developing International Standards on Auditing. The AUASB will continue to monitor developments at the international level and, if necessary, update the AUASB Preamble at a future date to reflect these updated drafting principles and guidelines.

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<sup>9</sup> ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical financial Information*.

<sup>10</sup> Including ASA 100 (paragraph 14), ASQM 1 (paragraphs A6-A9), ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (paragraphs 9-12), ASRS 4400 *Agreed-Upon Procedures Engagements* (paragraphs 7-10).

## **Conformity with IAASB Standards**

17. ASA 101 relates to the Australian legislative environment and accordingly there is no equivalent International Standard on Auditing issued by the IAASB. Where relevant, the AUASB has aligned the wording of this Auditing Standard with the IAASB Preface.

## **Request for Comments**

18. The AUASB requests comments on all matters in relation to ED 02/21, but specifically in relation to the questions below. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.

### **Exposure Draft Questions**

The AUASB is seeking comments on ED 02/21 from stakeholders on the following questions:

1. Do you support the introduction of the proposed revised ASA 101 which will replace ASA 100 and extant ASA 101? If not, why not?  
  
The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the matters below. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing standard.
2. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where these costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to fees); and
  - c. Whether expected costs outweigh the benefits to the users of assurance services?
5. Are there any other significant public interest<sup>11</sup> matters that stakeholders wish to raise?

The AUASB asks that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcomes any other comments which are not specifically addressed by the questions above.

## **Application**

19. It is intended that the proposed Auditing Standard will be operative for engagements with financial reporting periods commencing on or after 1 October 2021. Early adoption of this Auditing Standard is permitted prior to this date.

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<sup>11</sup> The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements* expands upon what the "public interest" means to the AUASB and provides a useful frame of reference for the AUASB to assess whether its standard-setting process is appropriate and responsive to the public interest. See Appendix 1 of the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

## **Comment Date**

20. ED 02/21 will be open to stakeholders for a 30-day comment period, closing **31 July 2021**.
21. At the completion of the exposure period, the AUASB will consider stakeholders' submissions and make amendments to the proposed standard, where considered appropriate.

## **Additional Website Resources**

### *Mapping of changes to extant ASA 101*

22. ED 02/21 is available on the AUASB website. For further information, including tracking of the changes to ASA 101, refer to the following AUASB meeting papers:
  - (a) **April 2021, Agenda Item 4 -**
    - **Agenda Item 4.2 Revised ASA 101 marked up version**, which can be used to track changes made to the extant ASA 101. Comment boxes have been added to show the source of amendments/additions.
    - **Agenda Item 4.3 AUASB Agenda Paper Attachment**, which includes an analysis of the AUASB Preambles. Part B of this analysis includes a side by side comparison of ASA 100 and extant ASA 101 which will enable tracking of content carried forward from ASA 100 to the proposed revised ASA 101 (ED 02/21).
  - (b) **June 2021, Agenda Item 3.2 - Revised ASA 101 marked up from the April 2021 AUASB meeting.**

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## AUASB Agenda Paper

<b>Project:</b>	<b>Amendments to ASA 560</b>	<b>Meeting:</b>	8 June 2021
<b>Topic:</b>	<b>Amendments to ASA 560</b>	<b>Agenda Item:</b>	4.0
<b>Strategic Objective:</b>	Influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards	<b>Decision-Making:</b>	For Discussion and Approval
<b>ATG Staff:</b>	See Wen Ewe	<b>Project Status:</b>	In Progress
<b>AUASB Sponsor:</b>	None		

### Action Required and Decisions to be Made

- The AUASB is requested to review the following and provide feedback:
  - Agenda Item 4.1 – Proposed Project Plan for Amendments to ASA 560
  - Agenda Item 4.2 – Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* (Draft)
  - Agenda Item 4.3 – Explanatory Memorandum: Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* (Draft)
- The AUASB is requested to approve ED 03/21 and the Explanatory Memorandum.



## ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB agree with the scope of this project or have any other comments on the project plan?	The ATG recommends that the project plan at Agenda Item 4.1 is approved by the AUASB.
Question 2	Does the AUASB agree with the proposed effective date?	The ATG recommends that the proposed effective date of the amendments is for financial reporting periods commencing on or after 15 December 2021.
Question 3	Does the AUASB agree with ATG's proposal of making the amendments through an amending standard?	Given the narrow scope change of this project, the ATG proposes to make the amendments through an amending standard instead of issuing a new standard.
Question 4	Does the AUASB agree with the proposed amendments or have any other comments on the ED 03/21 or the Explanatory Memorandum?	The ATG recommends that the ED is approved by the AUASB.

## Background

- 3 The Financial Markets Authority New Zealand (FMA) raised concerns with the New Zealand Auditing and Assurance Standards Board (NZAuASB) about how to ensure that investors and other stakeholders are informed in a timely manner that they cannot rely on the audit opinion, when a fact becomes known to the auditor after the financial reports have been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.
- 4 FMA also raised the practical difficulties that auditors face about how to inform users of the financial reports that they cannot rely on the auditor opinion attached to the financial reports.
- 5 In November 2019, the NZAuASB issued an [exposure draft](#) seeking feedback on the amendments made to ISA (NZ) 560, *Subsequent Events*.
- 6 At the February 2020 NZAuASB Meeting, the NZAuASB approved limited proposed changes to [ISA \(NZ\) 560, Subsequent Events](#).

## Previous Discussions on Topic

- 7 This issue was first brought to the AUASB's attention at the December 2019 AUASB meeting as part of the NZAuASB's Chair update. At the meeting, it was agreed that this topic will be



reviewed by the AUASB Technical Group and presented for consideration at a later AUASB meeting.

## Matters for Discussion and ATG Recommendations

- 8 In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so, and to amend the ISAs only when there are compelling reasons to do so. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia.
- 9 Under the AUASB's Principles of Convergence and Harmonisation Policy, harmonisation is therefore ideally achieved by adopting modifications made to an IAASB standard by one country that have relevance and application in the other country.
- 10 Furthermore, it is in the public interest to ensure that investors and other stakeholders are informed in a timely manner when an audit opinion is found to be incorrect.
- 11 Based on the reasons mentioned above, the ATG proposes to develop an Exposure Draft in Australia which incorporates the limited amendments to ASA 560 *Subsequent Events*.
- 12 A project plan has been drafted for the purpose of this project, see **Agenda Item 4.1**.
- 13 The scope of this project will be solely for the purpose to:
  - (a) clarify the timing of communications and possible actions the auditor may take when facts become known to the auditor after the financial report has been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report; and
  - (b) add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.

### Questions

1. Does the AUASB agree with the scope of this project or have any other comments on the project plan?

- 14 The proposed effective date of the amendments is for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted. Ordinarily, the AUASB standards have effective dates of 15 December following the international standards, however given the limited nature of amendments, it is anticipated that the amendments can go into effect almost immediately.

### Questions

2. Does the AUASB agree with the proposed effective date?



- 15 Normally, when there is a significant change to an existing standard, a revised standard would be issued. Currently, amending standards are commonly drafted for the purposes of conforming amendments arising from a revised standard. However, given the narrow scope amendments to ASA 560 as a result of this project, the ATG proposes to update ASA 560 through an amending standard instead of issuing a new standard.

(a) The pros of issuing an amending standard:

- (i) The amendments will be compiled together with previous compilations, hence previous compilation information will be retained.
- (ii) Federal Register of Legislation charges all legislative instruments by number of pages. An amending standard will have fewer pages than a full standard, hence cost saved.

(b) The cons of issuing an amending standard:

- (i) When a new standard is issued details of why the standard has been revised are included in the Preface. By issuing the changes to ASA 560 as an amending standard this information normally included in the Preface will not be explicitly stated in the compiled version (however the information will be fully disclosed in the accompanying Explanatory Memorandum).

The ATG proposes that an amending standard is suitable for the update to ASA 560 as the overall objective and requirements of the standard have not changed. In future the ATG would also recommend similar 'limited scope' amendments to auditing standards are also updated using this approach.

- 16 The proposed amendments affect paragraphs 14, 17 of the extant ASA 560 and include a new paragraph Aus A20.1 to the extant, see **Agenda Item 4.2**.

## Questions

- 3. Does the AUASB agree with ATG's proposal of making the amendments through an amending standard?
- 4. Does the AUASB agree with the proposed amendments or have any other comments on the ED 03/21 or the Explanatory Memorandum?

## Next steps/Way Forward

- 17 Subject to AUASB's approval of ED 03/21 and the Explanatory Memorandum, the ATG will incorporate the comments raised by the AUASB and both documents will be posted on the AUASB website. A communication email will be sent to stakeholders listed in the project plan.



- 18 The ED will be exposed for a 45-day comment period. The ATG will present a summary of the comments received to the AUASB at the September 2021 AUASB meeting, with a view to have the revised standard approved.

## Materials Presented

Agenda Item	Description
4.1	Proposed Project Plan for Amendments to ASA 560
4.2	Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 <i>Amendments to Australian Auditing Standard ASA 560 Subsequent Events</i> (Draft)
4.3	Explanatory Memorandum: Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 <i>Amendments to Australian Auditing Standard ASA 560 Subsequent Events</i> (Draft)



# AUASB Project Plan

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**Project Title:** Amendments to ASA 560  
**Date Prepared:** 11 May 2021  
**Date Approved:**  
**ATG Member:** See Wen Ewe  
**AUASB Member:**  
**Version number:** 1

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## Overview of Project

### Information Gathering/Background

*Why is this being brought to the AUASB's attention?*

- In February 2020, the NZAuASB Board approved limited proposed changes to ISA (NZ) 560, *Subsequent Events*, to clarify the timing communications and possible actions the auditor may take when a fact becomes known after issuing the auditor's report and, had it been known to the auditor at the date of the report, may have caused the auditor to amend the auditor's report.
- This issue was first brought to AUASB's attention at the December 2019 AUASB meeting as part of the NZAuASB's Chair update.
- As part of AUASB's strategic objectives to maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols, there is an urgency to update ASA 560 as ISA (NZ) 560 is effective for periods beginning on or after 15 July 2020.

*What information gathering has been completed to date?*

- The Financial Markets Authority New Zealand (FMA) first raised the issue in 2018 that they have had auditors experienced subsequent to issuing their audit opinions, where the audit opinion was either incorrect or the evidence no longer supported their opinion.
- The FMA considered that it is in the public interest for investors and other stakeholders to be informed in a timely manner when an audit opinion is found to be incorrect.
- However, FMA acknowledged the practical difficulties the auditors face about how to inform users of the financial statements that they cannot rely on the audit opinion attached to the financial statements.
- As a result, NZAuASB issued an [exposure draft](#) seeking feedback on the proposed amendments to ISA (NZ) 560, *Subsequent Events*, in November 2019.
- The amendments were made to paragraphs 14, 17 and NZ A20.1 of the revised ISA (NZ) 560.

- The amending standard was then approved by the NZAuASB at the [February 2020 NZAuASB meeting](#).
- Under the AUASB's Principles of Convergence and Harmonisation Policy, all AUASB Standards are developed and issued in accordance with the principles of harmonisation policy with New Zealand Standards and AUASB/NZAuASB communication protocols. Harmonisation is therefore ideally achieved by adopting modifications made to an IAASB standard by one country that have relevance and application in the other country.
- This issue is not limited to a particular stakeholder group hence the AUASB Technical Group (ATG) proposed to issue an exposure draft to various stakeholder groups to gather feedback.

*What additional information gathering needs to be completed and why?*

- The ATG has incorporated the amendments made by the NZAuASB in ED 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events*.
- Given the limited scope, the ED will be exposed for a 45-day comment period.

*Who are the relevant stakeholders and have they provided input to the information gathering?*

- Given the limited scope of amendments, an outreach is not deemed necessary.
- All Australian stakeholders are relevant to this project hence the exposure draft will be communicated via newsletters and social media channels. In addition, a targeted email will be sent to ASIC, CPA Australia, CA ANZ, PwC, KPMG, EY, Deloitte, BDO and Grant Thornton.

## Scope

**What is the problem we are trying to solve (project objective)?**

*What are the major issues that need to be addressed?*

- Inconsistencies between extant ASA 560 *Subsequent Events* and ISA (NZ) 560, *Subsequent Events*, which was revised on 27 February 2020.

*Project Objective*

- The objective of this project is to amend ASA 560 to align the requirements with ISA (NZ) 560.

*Project Scope*

- Propose amendments to Australian Auditing Standard ASA 560 *Subsequent Events* to clarify the timing of communications and possible actions the auditor may take when facts become known to the auditor after the financial reports have been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report; and
- To add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.

### Issues Out of Scope of this project

- Any potential issues identified apart from the project scope mentioned above will not be included as part of this project.

### What AUASB output will best respond to this?

- An exposure draft will be drafted to respond to this issue and seek feedback from Australian stakeholders.

## Project Governance

### Why is this in the public interest?

- It is in the public interest to ensure that investors and other stakeholders are informed in a timely manner when an audit opinion is found to be incorrect, especially in the current environment where situations could change in a short period of time (ie. border closures due to COVID-19 pandemic).
- This project relates to AUASB Strategic Objective three - influence international standards and guidance to achieve public interest outcomes and serve as the most effective base possible for Australian auditing and assurance standards and meets AUASB Performance Measure five - maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.

### Targeted Implementation Date

- Subject to AUASB approval of the exposure draft at the June AUASB meeting, the exposure draft will be released for public comment for a 45-day comment period.
- The ATG will present a summary of the comments received to the AUASB at the September 2021 AUASB meeting, with a view to have the revised standard approved.
- The proposed effective date of the amendment is for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.
- As the amendments are limited in nature, the ATG does not expect a lengthy transition period.

### Action Plan

- Refer table below.

Date	Description	Date	NZAuASB Timing (if applicable)
8 Jun 2021	Initial discussion, project plan and ED approval	N/A	N/A
7 & 10 Sep 2021	Amending Standard approval	N/A	N/A

## Communication with stakeholders

- Given the limited scope of changes, an outreach is not deemed necessary.
- All Australian stakeholders are relevant to this project hence the exposure draft will be communicated through newsletters and social media channels. In addition, a targeted email will be sent to ASIC, assurance practitioners and professional bodies.

## Risks/Issues

Risk/Issue	Mitigation	Related Action
<i>Potentially opens up other issues in ASA 560</i>	<i>The limited scope has been clearly outlined in both Explanatory Memorandum and Exposure Draft.</i>	<i>The limited scope has been clearly outlined under paragraphs 12 and 13 of the Explanatory Memorandum and paragraph 4 of the Exposure Draft.</i>

## Should an external resource be used?

- No external resource is needed for this project.

## Version Control

Version number	Approval Date	Minute number	Amendment Made	
			Relevant Section	Description
1			N/A	N/A

EXPOSURE DRAFT

**ED 03/21**  
(June 2021)

# **Proposed Auditing Standard ASA 2021-2** ***Amendments to Australian Auditing Standard ASA 560 Subsequent Events***

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

Draft



**Australian Government**

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**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than **[30 July 2021]**. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the “Work in Progress-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

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ISSN 1030-603X

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## PREFACE

### Reasons for Issuing ED 03/21

The AUASB issues exposure draft ED 03/21 of proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government 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 *Legislation 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 Proposals

This proposed Auditing Standard makes amendments to the requirements and application and other explanatory material of the following Auditing Standard:

ASA 560      *Subsequent Events* (Issued October 2009 and amended to December 2015)

The Explanatory Memorandum: Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* (Explanatory Memorandum) provides an overview of the proposed amendments.

### Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 15 December 2021.

### Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* by no later than **30 July 2021**. The AUASB is seeking comments from respondents on the following questions:

1. Are the proposed amendments to ASA 560 to clarify the timing of the auditor's communication to management and, where appropriate, those charged with governance when facts become known to the auditor after the financial report (and related auditor's report) have been issued helpful?
2. Is paragraph Aus A20.1(b) clear about who the auditor may consider notifying?
3. Do respondents have any other comments on ED 03/21 (please be specific)?
4. Do respondents support the proposed effective date? If not, please explain why not.
5. Have applicable laws and regulations been appropriately addressed in the proposed amendments to ASA 560? Are there any references to relevant laws or regulations that have been omitted?

6. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed amendments to ASA 560, or may conflict with the proposed amendments to ASA 560?
7. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed amendments to ASA 560, or may conflict with the proposed amendments to ASA 560?
8. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed amendments to ASA 560? If significant costs are expected, the AUASB would like to understand:
  - (i) Where those costs are likely to occur;
  - (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - (iii) Whether expected costs outweigh the benefits to the users of audit services?
9. Are there any other significant public interest matters that stakeholders wish to raise?

The AUASB ask that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcome any other comments which are not specifically addressed by questions above.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Draft

## **Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Draft

## AUDITING STANDARD ASA 2021-2

### *Amendments to Australian Auditing Standard ASA 560 Subsequent Events*

#### 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 15 December 2021, with early adoption permitted.

#### Introduction

##### Scope of this Auditing Standard

4. This Auditing Standard makes amendments to Australian Auditing Standard ASA 560 *Subsequent Events* made under Section 336 of the *Corporations Act 2001* to clarify the timing of communications and possible actions the auditor may take when facts become known to the auditor after the financial reports have been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.

#### Objective

5. The objective of this Auditing Standard is to make amendments to Australian Auditing Standard ASA 560 *Subsequent Events* (Issued October 2009 and amended to December 2015).

#### 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 Standard

7. This Standard uses underlining, striking out and other typographical material to identify the amendments to Auditing Standards, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

#### Amendments to ASA 560

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

[Deleted by the AUASB. Refer Aus 14.1.]

9. The following new paragraph Aus 14.1 is inserted following existing paragraph 14 of this Auditing Standard:

After the financial report has been issued, the auditor has no obligation to perform any audit procedures regarding such financial report. However, if, after the financial report has been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, those charged with governance within a reasonable period of time;
- (b) Determine whether the financial report needs amendment and; if so,
- (c) Enquire how management intends to address the matter in the financial report.

10. Existing paragraph 17 is amended to read as follows:

If management, or those charged with governance, do not take the necessary steps to ensure that anyone in receipt of the previously issued financial report is informed of the situation and does not amend the financial report in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity,<sup>7</sup> those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

(Ref: Para. A20-Aus A20.1)

11. The following new paragraph Aus A20.1 is inserted following existing paragraph A20 of this Auditing Standard:

Unless legal advice obtained recommends a different course of action, possible actions the auditor may consider include:

- (a) Notifying management and those charged with governance that the auditor's report must no longer be associated with the financial report;
- (b) If applicable, notifying the appropriate authority having jurisdiction over the entity that the auditor's report should no longer be relied upon, and requesting the authority to take steps to provide appropriate disclosure.
- (c) If practicable, notifying each person known to the auditor to be relying on the financial report that the auditor's report should no longer be relied upon.

June 2021

# **Explanatory Memorandum**

## **Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2**

### ***Amendments to Australian Auditing Standard ASA 560 Subsequent Events***

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



**Australian Government**  
**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Explanatory Memorandum

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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*Draft*

## **EXPLANATORY MEMORANDUM**

### **Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 Amendments to Australian Auditing Standard ASA 560 Subsequent Events**

#### **Purpose**

1. The AUASB is seeking feedback from stakeholders on proposed amendments to ASA 560 *Subsequent Events*, which are detailed in Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* (ED 03/21).
2. The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 03/21.

#### **Background**

3. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when developing Australian Auditing Standards.
4. In 2019, the Financial Markets Authority New Zealand (FMA) raised concerns with the New Zealand Auditing and Assurance Standards Board (NZAuASB) about how to ensure that investors and other stakeholders are informed in a timely manner that they cannot rely on the audit opinion, when a fact becomes known to the auditor after the financial reports have been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.
5. There are practical difficulties that auditors face about how to inform users of the financial reports that they cannot rely on the auditor opinion attached to the financial reports. As a result, the NZAuASB amended ISA (NZ) 560 *Subsequent Events* to add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.
6. At the February 2020 NZAuASB meeting, the NZAuASB approved limited proposed changes to [ISA \(NZ\) 560, Subsequent Events](#), to clarify the timing communications and possible actions the auditor may take when a fact becomes known after issuing the auditor's report and, had it been known to the auditor at the date of the report, may have caused the auditor to amend the auditor's report.
7. Consistent with the AUASB's principle of harmonisation with the NZAuASB, the AUASB has agreed to develop an Exposure Draft in Australia which incorporates the limited amendments to ASA 560 *Subsequent Events*.
8. The AUASB considers that it is in the public interest to ensure that investors and other stakeholders are informed in a timely manner when an audit opinion is found to be incorrect. Accordingly, the AUASB has developed an Exposure Draft in Australia which incorporates the limited amendments to ASA 560 *Subsequent Events*.

#### **Conformity with IAASB's auditing standards**

9. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so, and to amend the ISAs only when there are compelling reasons to do so.
10. Under the AUASB's Principles of Convergence and Harmonisation Policy both the AUASB and NZAuASB agree to adopt IAASB Standards and only consider making modifications to the IAASB Standards if modifications are in the public interest and do not conflict with, or result in lesser requirements than, the international standards. Harmonisation is therefore ideally achieved by adopting modifications made to an IAASB standard by one country that

have relevance and application in the other country. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website.

11. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the NZAuASB.
12. Extant ASA 560 conforms with International Standard on Auditing ISA 560. The proposed amendments contained in ED 03/21 add to existing requirements of ISA 560 and consequently the AUASB considers that the proposed amendment to ASA 560 conforms with ISA 560.

### **Key proposals contained in ED 03/21**

13. ED 03/21 proposes amendments to ASA 560 to clarify the timing of communications and possible actions the auditor may take when facts become known to the auditor after the financial reports have been issued that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.
14. The purpose of the proposed amendments to ASA 560 is to add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.

*Draft*

### **Exposure Draft Questions**

The AUASB is seeking comments on ED 03/21 from stakeholders on the following questions:

1. Are the proposed amendments to ASA 560 to clarify the timing of the auditor's communication to management and, where appropriate, those charged with governance when facts become known to the auditor after the financial report (and related auditor's report) have been issued helpful?
2. Is paragraph Aus A20.1(b) clear about who the auditor may consider notifying?
3. Do respondents have any other comments on ED 03/21 (please be specific)?
4. Do respondents support the proposed effective date? If not, please explain why not.
5. Have applicable laws and regulations been appropriately addressed in the proposed amendments to ASA 560? Are there any references to relevant laws or regulations that have been omitted?
6. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed amendments to ASA 560, or may conflict with the proposed amendments to ASA 560?
7. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed amendments to ASA 560, or may conflict with the proposed amendments to ASA 560?
8. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed amendments to ASA 560? If significant costs are expected, the AUASB would like to understand:
  - (i) Where those costs are likely to occur;
  - (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and
  - (iii) Whether expected costs outweigh the benefits to the users of audit services?
9. Are there any other significant public interest matters that stakeholders wish to raise?

The AUASB ask that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcome any other comments which are not specifically addressed by questions above.

### **Application**

15. The proposed effective date of the amendment is for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.

### **Comment Date**

16. Comments to the AUASB will close on **[30 July 2021]**.
17. At the completion of the exposure period, the AUASB will consider stakeholders' submissions.

### **Website Resources**

18. ED 03/21 is available on the AUASB website.



# AUASB Agenda Paper

<b>Project:</b>	<b>ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i></b>	<b>Meeting:</b>	8 June 2021
<b>Topic:</b>	<b>Implementation support plan</b>	<b>Agenda Item:</b>	5.1
<b>Strategic Objective:</b>	Develop Australian specific Guidance where required.	<b>Decision-Making:</b>	For Discussion and AUASB input
<b>ATG Staff:</b>	Anne Waters	<b>Project Status:</b>	In Progress
<b>AUASB Sponsor:</b>	Bill Edge		

## Action Required and Decisions to be Made

- 1 The purpose of this Agenda Paper is to seek AUASB support and input on the Australian implementation activities and support materials to be developed by the AUASB Technical Group for ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (ASA 315).
- 2 **ATG Recommendations Overview and Questions for the Board**

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	The AUASB is requested to provide any input into the proposed Australian Implementation Support activities as outlined in this paper.	Support planned implementation activities.

## Background

- 1 ASA 315 is operative for financial reporting periods commencing on or after 15 December 2021 i.e. December 2022 / June 2023 year ends.
- 2 At its meeting on 4 February 2020 the AUASB approved ASA 315 noting it is complex in nature and comprehensive implementation guidance was critical to assist practitioners and to ensure the objectives in enhancing the standard would be achieved.

- 3 To date the IAASB have released the following which are available on the [AUASB](#) website:
- IAASB Introduction to ISA 315; and
  - IAASB Non-Authoritative Support Material: Using Automated Tools and Techniques when Identifying Risks
- 4 The IAASB are also developing further guidance materials detailed in their [implementation support plan](#) which includes:
- a first-time implementation guide;
  - fact sheets; and
  - frequently asked questions (FAQs)

These are due to be completed by the end of June 2021.

- 5 At this stage the ATG do not know the exact content of the IAASB's guidance and whether this will address all topics we have identified as requiring some guidance (refer Appendix 1 for a list of possible FAQs). The ATG will review the IAASB's implementation guidance as it is issued and will then assess if there is a need to supplement this with further Australian developed guidance materials.
- 6 Based on the implementation date the ATG consider that implementation support should be issued by October 2021 to allow auditors time to amend methodologies. So, the ATG will commence development of further guidance to meet this timeline if considered necessary.

## ***Proposed Australian implementation activities and support materials***

### ***Phase 1: Awareness (during 2021 note already commenced)***

- Develop a dedicated ASA 315 page on the AUASB website where all support materials, are collated to facilitate easy access by AUASB stakeholders.
- Monitor and promote IAASB implementation support materials through the AUASB landing page as materials are issued.
- Present at CAANZ Audit Conference in May 2021.
- Implementation support for scalability for LCEs to be developed as a priority with the aim to release in July 2021.
- Conduct a webinar in October 2021 with overview of key changes and to promote the implementation support materials available.
- Develop series of staff FAQs – largely around the key changes and understanding of the operation of the standard. Examples of staff FAQs that can be developed is included at **Appendix 1** to this paper.

### ***Phase 2: Monitor implementation (during 2022)***

- Engage with professional bodies for the AUASB to provide updates and present at their various seminars and conferences as considered necessary.
- Continue to monitor implementation by attendance at auditor forums and request feedback on whether further activities are required.

## 1. Appendix 1

**Examples of staff FAQs** Based on feedback previous feedback from AUASB members and consideration by the ATG, the following has been identified where guidance would be beneficial for practitioners:

- What's changed?
- When is design and implementation testing of controls required?
- Is it possible to do a fully substantive audit and not gather an understanding of the entity's system of internal controls and not test any controls?
- How to identify and assess inherent risk?
- If an inherent risk factor is relevant to an assertion does that mean there is a ROMM?
- Do I need to document why IRF aren't relevant to all COTABD?
- How to assess control risk?
- How to combine inherent and control risk to assess ROMM?
- When do I need to test General IT Controls?
- Is it possible to not have any significant risks?
- What documentation requirements exist?
- How ASA 315 may be scalable for audits of less complex entities (LCEs)?



# AUASB Agenda Paper

<b>Project:</b>	<b>Quality Management Standards</b>	<b>Meeting:</b>	June 2021
<b>Topic:</b>	<b>Implementation support plan</b>	<b>Agenda Item:</b>	5.2
<b>Strategic Objective:</b>	Develop Australian specific Guidance where required.	<b>Decision-Making:</b>	For Discussion and AUASB input
<b>ATG Staff:</b>	Rene Herman	<b>Project Status:</b>	In Progress
<b>AUASB Sponsor:</b>	Gareth Bird/Julie Crisp		

## Action Required and Decisions to be Made

- 1 The purpose of this Agenda Paper is to seek AUASB support and input on the proposed QM standards Australian implementation activities and support materials to be developed by the AUASB Technical Group

## 2 ATG Recommendations Overview and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
<b>Question 1</b>	The AUASB is requested to provide any input into the proposed Australian Implementation Support activities as outlined in this paper.	Support planned implementation activities.

## Background

3. Systems of quality management in compliance with ASQM 1 are required to be designed and implemented by 15 December 2022 (impacting June 2023 year ends), and the evaluation of the system of quality management is required to be performed within one year following 15 December 2022 (impacting June 2024 year ends).
4. At the March 2021 AUASB meeting, the AUASB approved the 3 Quality Management standards (ASQM 1, ASQM 2 and ASA 220) noting it is complex in nature and comprehensive implementation guidance was critical to assist practitioners and to ensure the objectives in enhancing the standard would be achieved.

5. The IAASB has committed to implementation support materials as detailed in their [implementation support plan](#) which includes FAQs, first time implementation guides, webinars and fact sheets. Support materials are expected to be issued in the latter part of 2021.

## ***Proposed Australian implementation activities and support materials – through Q3 and Q4 2021***

### ***Phase 1: Awareness***

6. Develop a dedicated QM-standards landing page on the AUASB website where all support materials, from all around the globe, are collated to facilitate easy access by AUASB stakeholders.
7. Monitor and promote IAASB implementation support materials through the AUASB landing page.
8. Develop webinars – introduction to the standards/significance of key changes (in the absence of IAASB materials).
9. Outreach with small practitioners to understand implementation support needs. Share outcomes with the AUASB and the professional bodies.
10. Develop series of staff FAQs – largely around the understanding of the operation of the standard (educative materials). Examples of staff FAQs that can be developed is included at **Appendix 1** to this paper.

### ***Phase 2: Implementation and Collaboration***

11. Engage with professional bodies for the AUASB to provide QM standard updates at their various seminars and conferences.
12. Develop series of staff FAQs/other support materials based on the outcomes of the outreach from paragraph 9 above.
13. The AUASB Technical group, proposes outreach to other NSSs including New Zealand and Canada to understand implementation support activities being done in various jurisdictions and to seek input on proposed Australian implementation support materials as deemed appropriate by the AUASB Technical Group.
14. Proactively engage with APESB Technical staff to determine whether any joint implementation guidance could be issued particularly with reference to non-assurance practitioners.
15. Determine further activities if required.

## 1. Appendix 1

**Examples of staff FAQs – this list is not exhaustive and does not cover all components of the system of quality management**

### *General*

- (a) When is this standard effective for and does the system need to be fully up and running by the effective date?
- (b) Does the system of quality management cover all engagements performed by the firm?
- (c) Is the firm required to have all eight components in its system of quality management?

### *Risk Assessment Process*

- (d) Is the firm required to identify and document all risks that could affect the achievement of quality objectives?
- (e) What factors does the firm consider in assessing the quality risks?
- (f) Is the firm required to design and implement responses for every risk that has been identified?

### *Governance and Leadership*

- (g) What actions can a firm take to establish a culture that promotes a commitment to quality?

### *Relevant Ethical*

- (h) Are the firm's responses required to also address the independence of other network firms or personnel in other network firms?

### *Resources*

- (i) What is a firm expected to do when it uses an IT application from a service provider in its system of quality management?

### *Communication*

- (j) How is the firm expected to communicate information, and does it always need to be formally documented?

### *Monitoring and Remediation*

- (k) Are there monitoring activities other than inspection of engagements that a firm is able to use to monitor the system of quality management?
- (l) How frequently should monitoring activities be undertaken?



## AUASB Agenda Paper

<b>Project:</b>	<b>Public Sector Audit Issues</b>	<b>Meeting:</b>	<b>8-9 June 2021</b>
<b>Topic:</b>	<b>Public Sector Audit Issues</b>	<b>Agenda Item:</b>	<b>9.0</b>
<b>Strategic Objectives:</b>	1 & 2	<b>Decision-Making:</b>	For Noting
<b>ATG Staff:</b>	Matthew Zappulla Johanna Foyster	<b>Project Status:</b>	In Progress
<b>AUASB Sponsor:</b>	Julie Crisp		

### Objective of Agenda Item

- 1 Report to the AUASB on the progress of the Public Sector Audit Issues Project Advisory Group (PAG).

### Action Required and Decisions to be Made

- 2 This Agenda Item is for noting and there are no specific actions for the AUASB.

### Background

- 3 The AUASB approved a Strategic Project Plan focusing on Public Sector Audit Issues at its April 2018 meeting.
- 4 The PAG Terms of Reference (TOR) and Membership were confirmed at the first meeting of the PAG in March 2019 (refer to April 2019 AUASB meeting papers - Agenda Item No. 9).
- 5 The PAG met on four occasions during 2019 and the AUASB received regular updates at its meetings on the PAG's progress during this period. The last update to the Board was at its December 2019 meeting (refer to Agenda Item No. 15).
- 6 The project was paused early in 2020 due to the AUASB reallocating resources to respond to higher priority issues related to the COVID-19 pandemic and to finalise other major projects.

### Matters to Consider

- 7 The PAG reconvened in April 2021 to re-affirm the membership and the TOR for the PAG (updated to reflect technical staff changes and new timelines) and to chart the way forward.
- 8 The PAG re-affirmed the three top priorities identified in its TOR, namely: Terms of Engagement, Going Concern and Engagement Leader responsibilities. Once the first three priorities have been completed, the PAG will consider other areas identified in the TOR, including: Group Audits, Reporting of KAMs and the use of Technology.
- 9 The scope of the PAG was expanded to also include consideration of any PS issues related to the implementation of the new suite of Quality Management Standards in Australia,

following the AUASB's decision in March not to carry forward PS Australian amendments to application and explanatory material from ASQC 1 to the new ASQM 1.

- 10 The PAG agreed that the key outcomes from work undertaken by the PAG in 2019 continue to be appropriate going forward. It was agreed that the ATG proceed in developing GS-text to address PS challenges related to ASA 210 *Agreeing the Terms of Audit Engagements*, based on deliberations from the October 2019 PAG meeting.
- 11 The Group briefly revisited the decision in 2019 to develop a Guidance Statement (GS) rather than opting for a standard-setting solution. The PAG agreed that a GS would be the best approach as GSs will have the necessary authority, can be issued quicker and tailored to be fit for purpose to address the specific needs of the PS.
- 12 The PAG agreed on the principle to develop and issue guidance in such a fashion that each topic is added incrementally to a framework, as opposed to a "single issue" GS that covers all issues. The PAG felt that the development of separate GSs to deal with individual topics will make it possible to yield results in the short term. This approach will also provide greater flexibility, as it will enable the ATG to produce a finished product in the short term for PAG and AUASB consideration and approval that can then be used as a template for the remaining topics.
- 13 The PAG also supported a proposal to develop some sort of overarching framework document to which topic specific guidance could be added.
- 14 The Group considered the option to:
  - develop and issue separate GSs for each topic as part of a series of PS GSs (the framework document will be the first GS in the series, similar to the AUASB Preamble); or, alternatively,
  - develop and incrementally add topic specific guidance to an umbrella framework (similar to building a book with different chapters).These options will be further explored at the next PAG meeting.
- 15 The ATG briefed the PAG on international developments in the PS audit space and provided background information on the proposed INTOSAI GUID 2900, which was issued by the Financial Audit and Accounting Subcommittee of INTOSAI (FAAS) for public comment in 2020. The PAG agreed that this guidance could potentially be useful as a resource to leverage off in developing Australian PS guidance.

## Next steps/Way Forward

- 16 The next PAG meeting will be held in the last week of June 2021. At this meeting the PAG will consider an outline of the overarching framework document that will accompany or sit over the series of topic specific PS GSs.