

**EXPOSURE DRAFT**

**ED 6/05**  
(October 2005)

# **Proposed Foreword to AUASB Pronouncements**

Prepared and Issued 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 forwarded so as to arrive by 15 December 2005. Comments should be addressed to:

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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). Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until 15 December 2005 by contacting:

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## PREFACE

### **Reasons for Issuing ED 6/05**

The Auditing and Assurance Standards Board (AUASB) is proposing to issue the *Proposed Foreword to AUASB Pronouncements* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 227B of the *Australian Securities and Investments Commission Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation, formulate auditing and assurance standards for other purposes and formulate guidance on auditing and assurance matters.

### **Main Proposals**

The proposed *Foreword to AUASB Pronouncements* is based on AUS 102 *Foreword to Australian Auditing and Assurance Standard and Guidance Statements* (January 2002) issued by the former Auditing & Assurance Standards Board of the AARF that it supersedes and sets out:

- (a) the functions, composition and operating procedures of the AUASB;  
and
- (b) the range of pronouncements issued by the AUASB.

The proposed *Foreword to AUASB Pronouncements* does not itself establish mandatory requirements for the performance of audit, review, assurance or related service engagements. Accordingly, the AUASB does not intend to issue the proposed *Foreword to AUASB Pronouncements* as an Auditing Standard.

### **Proposed Operative Date**

It is intended that this proposed *Foreword to AUASB Pronouncements* will be operative from the date of issuance.

## **Request for Comments**

Comments are invited on this Exposure Draft by 15 December 2005. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed *Foreword to AUASB Pronouncements*, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed *Foreword to AUASB Pronouncements*.

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board formulates the *Proposed Foreword to AUASB Pronouncements* as set out in paragraphs 1 to 48 and Appendix 1, pursuant to section 227B of the *Australian Securities and Investment Commission Act 2001*.

## ***Proposed Foreword to AUASB Pronouncements***

### **Introduction**

- 1 The purpose of this *Foreword to AUASB Pronouncements* (“the Foreword”) is to set out:
  - (a) the functions, composition and operating procedures of the Auditing and Assurance Standards Board (“AUASB”); and
  - (b) the range of pronouncements issued by the AUASB.

### **The Auditing and Assurance Standards Board**

#### **Background to the Establishment of the AUASB**

- 2 *The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (“CLERP 9”) came into effect on 1 July 2004. Its stated underlying objective is to improve the operation of the (capital) market by promoting transparency, accountability and shareholder activism.
- 3 CLERP 9 delivered significant changes to a number of Acts, including the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001* (“ASIC Act”), and contained a number of amendments affecting the audit profession.
- 4 The establishment of the Auditing and Assurance Standards Board (“AUASB”) was the result of the following two significant amendments to the *Corporations Act 2001* that emanated from CLERP 9:
  - (a) the reconstitution of the former Auditing and Assurance Standards Board (“AuASB”<sup>1</sup>) as a statutory body under the oversight of the Financial Reporting Council; and
  - (b) giving Auditing Standards the force of law for the purposes of the *Corporations Act 2001*.

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<sup>1</sup> The AuASB previously existed as a board of the Australian Accounting Research Foundation, which was jointly controlled and funded by the Institute of Chartered Accountants in Australia and CPA Australia.

**Role of the Financial Reporting Council**

- 5 The Financial Reporting Council (“FRC”) is a statutory body established under the ASIC Act. The FRC, in its role of providing broad oversight of the auditing standard setting arrangements in Australia, is responsible for overseeing the AUASB.
- 6 Specific oversight responsibilities with respect to the AUASB include appointing AUASB members<sup>2</sup>, approving and monitoring the AUASB business plan, budget and staffing arrangements and determining the AUASB’s broad strategic direction.

**Functions of the AUASB**

*Functions under the ASIC Act*

- 7 The primary functions of the AUASB under section 227B of the ASIC Act are:
- (a) to make auditing standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation; and
  - (b) to formulate auditing and assurance standards for other purposes; and
  - (c) to formulate guidance on auditing and assurance matters; and
  - (d) to participate in and contribute to the development of a single set of auditing standards for world-wide use; and
  - (e) to advance and promote the main objects of Part 12 of the ASIC Act.

*The AUASB Strategic Direction*

- 8 Under the ASIC Act, the FRC is required to issue strategic directions to the AUASB that formally endorse proposed courses of action or goals and which assist the AUASB in achieving its primary functions set out in the ASIC Act.
- 9 The strategic direction issued by the FRC on 6 April 2005 inter alia requires the AUASB to use International Standards on Auditing

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<sup>2</sup> The FRC appoints all AUASB members with the exception of the Chair. The Minister appoints the Chair.



## ***Proposed Foreword to AUASB Pronouncements***

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(“ISAs”) as a base from which to develop high quality Auditing Standards that have a clear public interest focus and to develop and issue other auditing and assurance standards and related guidance. The complete content of the strategic direction issued by the FRC is available on the AUASB website.

### **The Public Interest**

- 10 Auditing is a public interest activity and the work of the AUASB in setting auditing and assurance standards forms part of the broad corporate governance framework in Australia. The AUASB maintains a broad public interest perspective in performing its key functions.
- 11 In this context, the public interest is interpreted as meaning acting for the good of stakeholders by facilitating confidence and reliability in the Australian financial system. The AUASB aims to do this by developing high quality auditing and assurance standards and related guidance that enhance the relevance, consistency, and timeliness of information provided to users of audit and assurance services.

### **Membership of the AUASB**

#### *Appointment to the AUASB*

- 12 The Minister<sup>3</sup> appoints the Chair of the AUASB.
- 13 The FRC appoints the other members of the AUASB.
- 14 Appointments to the AUASB are aimed at achieving balance between private sector, public sector and academia representatives. The FRC has developed a framework for appointment to the AUASB, which includes the criteria for appointment, appointment process, performance assessment and succession planning. The framework is available on the FRC website at [www.frc.gov.au](http://www.frc.gov.au).

#### *AUASB Meeting and Voting Procedures*

- 15 Subject to certain provisions, the AUASB has the power to determine its own procedural rules including meeting and voting procedures under the ASIC Act. The AUASB publishes a schedule of meetings at the start of each year.
- 16 An AUASB member who has a material personal interest in a matter being considered, or which is about to be considered at an AUASB

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<sup>3</sup> Currently the Federal Treasurer.

### ***Proposed Foreword to AUASB Pronouncements***

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meeting, must disclose the nature and extent of the interest and the relation of the interest to the affairs of the AUASB<sup>4</sup>.

- 17 The approval of AUASB pronouncements requires the affirmative vote of a prescribed majority of AUASB members. This requirement ensures that a high level of consensus must be attained to approve standards or guidance issued by the AUASB. All other decisions require a simple majority of those members (including the Chair) who are present and voting. In the event of a tied vote, the Chair's vote will constitute a casting vote.
- 18 The ASIC Act provides that any meeting of the AUASB, or a part of the meeting, that concerns the contents of Auditing Standards, or International Standards on Auditing, must be held in public. Scheduled meetings are shown on the AUASB website and in AUASB publications such as the "*AUASB Highlights*". The meeting agenda and location is available on the AUASB website one week in advance of the meeting for the benefit of members of the public wishing to attend.

#### **Relationship with the International Auditing and Assurance Standards Board**

- 19 The International Auditing and Assurance Standards Board ("IAASB") of the International Federation of Accountants ("IFAC") issues, on an international basis, exposure drafts, standards and other pronouncements on auditing and assurance matters.
- 20 Participation in the work of the IAASB is considered integral to the ability of the AUASB to continue as an effective national standard-setter and is important to the AUASB maintaining and further developing the auditing and assurance standards and related guidance which are used in Australia. Australia has been regarded as an influential international contributor, through membership and direct input on matters on which the IAASB deliberates.
- 21 Where appropriate, the AUASB uses pronouncements issued by the IAASB as a basis for preparing Australian pronouncements. The rationale for this policy is the existence of the IAASB as the major global principles-based auditing and assurance standards setting body and the significant strengthening of its public interest focus in

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<sup>4</sup> The disclosure must be made as soon as possible after the relevant facts have come to the member's knowledge, and must be recorded in the minutes of the meeting. Unless the AUASB otherwise determines, the member: (a) must not be present during any deliberation by the AUASB on the matter; and (b) must not take part in any decision of the AUASB on the matter.

recent years, reinforced through oversight of its activities by IFAC's Public Interest Oversight Board. Furthermore, the strategic direction set by the FRC requires that, where appropriate, equivalent ISAs be used as the basis for re-drafting Australian Auditing Standards.

### **Pronouncements issued by the Auditing and Assurance Standards Board**

- 22 The AUASB issues both standards and guidance. A diagrammatic presentation of the pronouncements issued by the AUASB is contained in the Appendix to this document.

#### **Standards**

- 23 The AUASB issues the following types of standards:
- (a) Auditing Standards ("ASAs");
  - (b) Standards on Review Engagements ("ASREs");
  - (c) Standards on Assurance Engagements ("ASAEs"); and
  - (d) Standards on Related Services ("ASRSs").
- 24 ASAs, ASREs, ASAEs and ASRSs are collectively referred to in this document as the "Standards". The AUASB has issued a "*Preamble to AUASB Standards*" which sets out the AUASB's intentions on how the Standards are to be understood, interpreted and applied.
- 25 Auditing Standards (ASAs), whilst developed in the context of financial report audits, are to be applied, as appropriate, to all audits of other historical financial information.
- 26 Standards on Review Engagements (ASREs) are to be applied to the review of a financial report and are also to be applied, as appropriate, to the review of other historical financial information.
- 27 Standards on Assurance Engagements (ASAEs) are to be applied to assurance engagements dealing with subject matters other than historical financial information.
- 28 Standards on Related Services (ASRSs) are to be applied to engagements involving agreed upon procedures to information and other related services engagements as specified by the AUASB.

## **Guidance**

29 The AUASB issues the following types of guidance:

- (a) Guidance Statements; and
- (b) Other guidance.

### *Guidance Statements*

30 The AUASB issues Guidance Statements on audit, review, assurance and related services matters.

31 Guidance Statements, whilst approved and issued by the AUASB, do not establish new principles and do not amend existing Standards. Issuance of Guidance Statements will normally be appropriate where the AUASB wishes to provide guidance on procedural matters or on entity or industry specific issues

32 Guidance Statements contain a specific clause indicating their operative date. The Guidance Statement remains in force until the operative date of any amendment to the Guidance Statement or until the Statement is withdrawn by the AUASB.

### *Other Guidance*

33 The AUASB also issues Auditing Guidance Notes and Auditing and Assurance Alerts.

34 Auditing Guidance Notes are issued to provide interim guidance on matters that are of relevance to audits but which are yet to be incorporated in Standards or Guidance Statements. They do not amend existing Standards and Guidance Statements.

35 Auditing and Assurance Alerts do not provide interim guidance but discuss and create awareness of emerging topical issues.

## **Due Process**

36 A Standard or Guidance Statement can be developed in one of two ways:

- (a) the use of an IAASB pronouncement as a basis for the preparation of an Australian pronouncement; or
- (b) the development of a pronouncement that relates to a specific Australian auditing and assurance matter.

### *Proposed Foreword to AUASB Pronouncements*

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- 37 Both the AUASB and the IAASB employ an extensive due process in the development of Standards and Guidance Statements. These processes are considered essential to ensure that all interested parties are given ample opportunity to express their views and to ensure that pronouncements developed are relevant, consistent and logically derived.

#### **AUASB Due Process**

- 38 For pronouncements that relate to a specific Australian auditing and assurance matter, project proposals are developed and approved by the AUASB. After approval, the AUASB assigns responsibility for the project to the AUASB technical group.
- 39 When the project proposal is approved, the AUASB considers whether a project working group needs to be formed. A project working group would be appointed for topics requiring specialist input. In addition to reviewing the progress at key points in the development of the project, this project working group serves as a resource base available at all stages of the project.
- 40 The AUASB technical group member prepares a detailed discussion paper, which identifies the principal issues to be resolved in the preparation of the proposed pronouncement. The AUASB considers the discussion paper and makes tentative decisions. These decisions form the basis upon which a draft exposure draft (Standard) or draft Guidance Statement is prepared. An exposure draft is a document that proposes certain Standards and is released for public comment to gauge the appropriateness and level of acceptance of those proposals.

#### *Due Process for Standards*

- 41 Following review of the draft exposure draft, and processing of any amendments, the AUASB votes on the issuance of the exposure draft for public comment. Once approved, the exposure draft is placed on the AUASB's website. Each exposure draft contains a preface, which outlines the background to the development of the exposure draft, its purpose, main features and any issues on which specific comment is sought. The exposure period is generally between 45 and 60 days.
- 42 After considering the views expressed in submissions received on the exposure draft, the draft Standard is prepared. This may be followed by another selective exposure, which may give rise to further refinements to the document before the document is

### ***Proposed Foreword to AUASB Pronouncements***

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presented to the AUASB for final approval. Approval of the draft Standard is subject to the AUASB voting protocols described above.

#### ***Due Process for Legislative Instruments***

- 43 Auditing Standards made by the AUASB under section 336 of the *Corporations Act 2001* are legislative instruments under the *Legislative Instruments Act 2003* (“LIA”). As soon as practical after a Standard is approved by the AUASB, the Standard is registered on the Federal Register of Legislative Instruments. Standards are then tabled in both Houses of Parliament and are subject to the parliamentary scrutiny and disallowance provisions of the LIA. The date of commencement of a Standard is the date specified by the AUASB.

#### ***Due Process for Guidance***

- 44 Guidance Statements are generally not subject to the same public exposure draft process as a Standard. Following AUASB consideration of the draft Guidance Statement prepared, the draft is amended, as appropriate, and presented to the AUASB for final approval. Approval of the draft Guidance Statement by the AUASB is subject to the AUASB voting protocols described above.

#### **IAASB Due Process**

- 45 For the IAASB’s pronouncements, project proposals are developed and approved by the IAASB. Responsibility for the project is assigned to a task force who prepares an exposure draft for the IAASB’s review and approval. When approved, the pronouncement is exposed for public comment. The exposure period is generally between 90 and 120 days.
- 46 The comments and suggestions received as a result of this exposure are considered by the IAASB and the exposure draft is revised as appropriate. When the revised draft is approved, it is issued as a definitive International Standard or Practice Statement.
- 47 In Australia, the AUASB seeks comments on IAASB exposure drafts, with an invitation for interested parties to make submissions to the AUASB. This serves two purposes. Firstly, comments received are considered by the AUASB in preparing its own submission to the IAASB. Secondly, the AUASB considers the comments when developing its own pronouncement using the IAASB pronouncement as a base.

## **Communications**

### *Use of Web Site*

- 48 The AUASB website at [www.auasb.gov.au](http://www.auasb.gov.au) is designed to meet stakeholder information needs. The website is used to provide information about the AUASB, its governance guidelines, activities and work programme to its stakeholders and interested parties. Pronouncements issued by the AUASB are published on the website and are available for download free of charge. As noted above, the AUASB publishes on the website meeting agendas prior to meetings and meeting highlights after meetings on the website. Members of the public are able to register for the AUASB Update Notification Service which provides individuals with a notification, in the form of an email, alerting of important updates to the website.

### *Contacting the AUASB*

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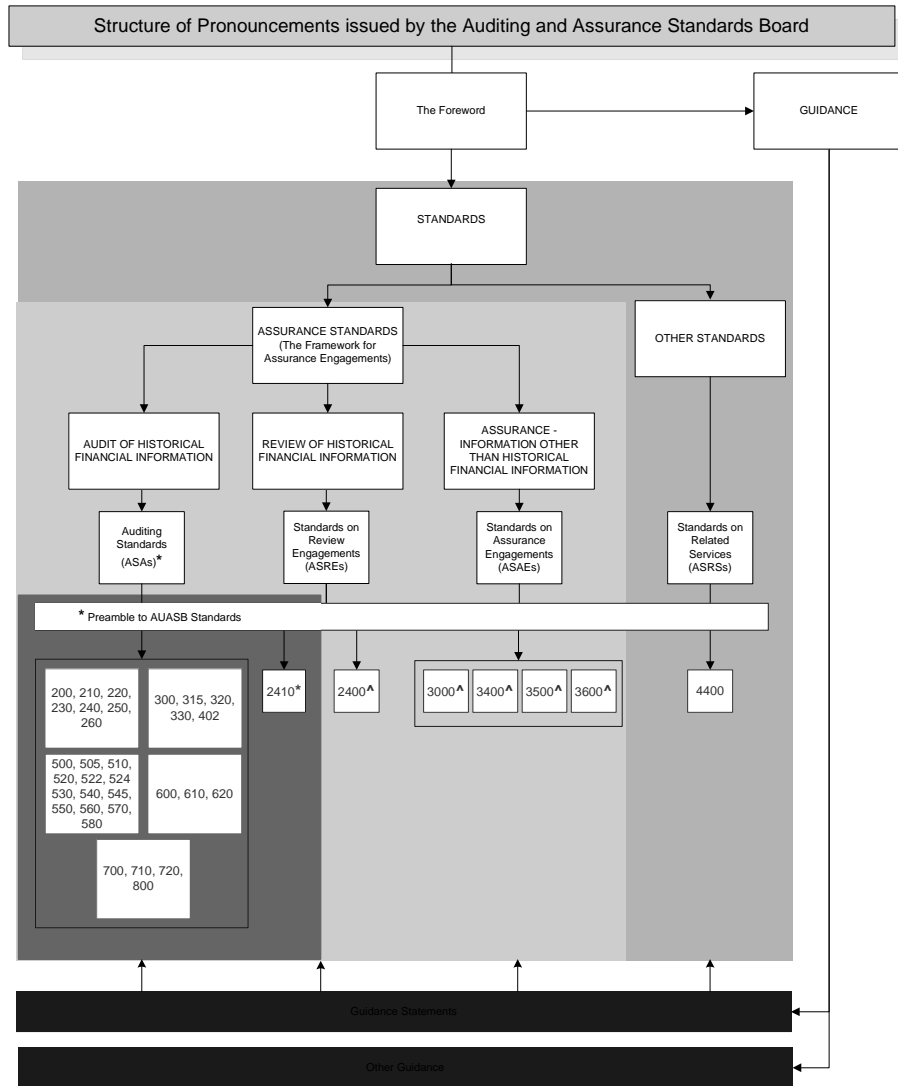
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***Proposed Foreword to AUASB Pronouncements***

**APPENDIX 1**



\* made under section 336 of the Corporations Act 2001

^ auditing and assurance standards for other purposes