Foreword to Australian Auditing and Assurance Standards and Guidance Statements

Prepared by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation

Issued by the Australian Accounting Research Foundation on behalf of CPA Australia and The Institute of Chartered Accountants in Australia
The Australian Accounting Research Foundation was established by CPA Australia and The Institute of Chartered Accountants in Australia and undertakes a range of technical and research activities on behalf of the accounting profession as a whole. A major responsibility of the Foundation is the development of Australian Auditing and Assurance Standards and Statements.

Auditing and Assurance Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing and Assurance Standards".

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AUS 102 “FOREWORD TO AUSTRALIAN AUDITING AND ASSURANCE STANDARDS AND GUIDANCE STATEMENTS”

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Introduction

.01 This Foreword sets out the structure and authority of auditing and assurance pronouncements and the due process employed by the Auditing & Assurance Standards Board in the development of Auditing and Assurance Standards, Auditing and Assurance Guidance Statements, Audit and Assurance Guides, Audit and Assurance Alerts, Discussion Papers and Booklets. It also explains the applicability, scope and authority of these Standards, Statements and other related publications.

Structure for the Development of Auditing and Assurance Pronouncements

.02 In 1966, CPA Australia and The Institute of Chartered Accountants in Australia (the Accounting Bodies), in recognition of the significance of financial reporting as a means of communicating information to interested parties, established the Australian Accounting Research Foundation (the Foundation) with the principal objective of “... improving the quality of financial reporting and auditing ... in Australia ...”

.03 As part of the means of achieving this objective, the Accounting Bodies formed, within the Foundation, the Auditing & Assurance Standards Board (AuASB), which succeeded earlier auditing and assurance standards committees, and vested in the AuASB the responsibility for the development and maintenance of standards and statements on auditing and audit related services1 and other supporting publications. The AuASB consists of members nominated by the Accounting Bodies and supported by the technical staff of the Foundation. Responsibility for final approval of Auditing and Assurance Standards lies with the National Councils of the Accounting Bodies, whereas Auditing and Assurance Guidance Statements are approved and issued by the AuASB subject to review by the Presidents of the Accounting Bodies for matters of policy.

.04 In the development of Auditing and Assurance Standards on audit, other assurance engagements, and audit related services, the AuASB employs an extensive “due process”, an outline of which is provided in paragraphs .17 to .38. The objective of the AuASB is the production of one series of Standards which apply to both private and public sector external auditors in the conduct of an audit, other assurance engagement, or audit related service.

1 The scope of engagements covered by audit and audit related services is explained in AUS 106 “Explanatory Framework for Standards on Audit and Audit Related Services”.

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Auditing and Assurance Standards, Auditing and Assurance Guidance Statements and Other Publications

.05 The auditing and assurance section of the Members’ Handbooks of the Accounting Bodies comprises the Auditing and Assurance Standards (AUSs) issued by the Accounting Bodies, and Auditing and Assurance Guidance Statements (AGSs) issued by the AuASB on behalf of the Accounting Bodies. Both the Auditing and Assurance Standards and the Auditing and Assurance Guidance Statements are prepared by the AuASB and are made available to members of the Accounting Bodies and other interested parties through the Foundation’s website (http://www.aarf.asn.au). Audit and Assurance Alerts and Discussion Papers are also available from the Foundation’s website. Other publications (i.e., Audit and Assurance Guides, and other miscellaneous booklets) issued by the AuASB may be purchased from the bookshops of the Accounting Bodies.

Authority

.06 Auditing and Assurance Standards are given authority, with respect to members of the Accounting Bodies, by virtue of their approval and issue by the National Councils of the Accounting Bodies.

.07 Auditing and Assurance Standards contain the basic principles and essential procedures, together with related guidance, promulgated by the profession. Auditing and Assurance Standards apply in addition to any ethical or legal requirements relevant to a particular engagement. Auditing and Assurance Standards are to be applied to all financial report audits and are also to be applied, adapted as necessary, to all audits of other financial and non-financial information, other assurance engagements, and to all audit related services.

.08 Within each Auditing and Assurance Standard, the basic principles and essential procedures identified in bold-type (black lettering) are mandatory. They are to be complied with in the planning, conduct and reporting of audits, other assurance engagements, and audit related services except where otherwise stated in the Auditing and Assurance Standard concerned. They need not be applied to a matter forming part of the information subject to audit, other assurance engagement, or audit related service if that matter is not material. They are to be interpreted in the context of the explanatory text and other information contained in or appended to Auditing and Assurance Standards and Auditing and Assurance Guidance Statements. The explanatory text and other information provides guidance and practical examples to assist the auditor in the application of the basic principles and essential procedures. In rare and exceptional circumstances, a departure from a basic principle or essential procedure may be necessary to effectively fulfil the
The objective of an audit, other assurance engagement, or audit related service in the context of the specific circumstances of the engagement. In such a case, the auditor is to explain the departure in the auditor’s report.

.09 Auditing and Assurance Guidance Statements, while approved and issued by the AuASB, do not establish new principles and do not amend existing Standards. Issuance of an Auditing and Assurance Guidance Statement will normally be appropriate where the AuASB wishes to provide guidance on procedural matters, guidance on entity or industry specific issues, or believes an underlying principle in an AUS requires clarification, explanation or elaboration.

.10 Audit and Assurance Guides are approved and issued by the AuASB and are intended to provide detailed practical assistance in implementing Auditing and Assurance Standards, and to stimulate thought, discussion and debate on matters of auditing theory and practice, including guidance to assist an auditor in an audit, other assurance engagement, or audit related service on the financial reports of entities within a particular industry. Audit and Assurance Guides do not extend or limit the application of Auditing and Assurance Standards and should be read in conjunction with those Standards. The assistance provided may need to be varied to meet the requirements of a particular audit or audit related service engagement.

.11 Audit and Assurance Alerts and Discussion Papers and Booklets are approved and issued by the AuASB and are intended to raise a general awareness of matters that are of interest to auditors and professional accountants. They do not provide authoritative guidance and do not amend, extend or limit the application of Auditing and Assurance Standards and Guidance Statements.

Using the Work of the International Federation of Accountants in the Development of Auditing and Assurance Standards and Auditing and Assurance Guidance Statements

.12 The Accounting Bodies are members of the International Federation of Accountants (IFAC) and are committed to the broad objective of IFAC, which is the development and enhancement of a co-ordinated world-wide accountancy profession with harmonised standards. Furthermore, the Accounting Bodies have agreed to work towards implementation, when and to the extent practicable under local circumstances, of the Standards developed by IFAC.

.13 The International Auditing and Assurance Standards Board (IAASB)² is a standing board of the Council of IFAC. The IAASB

² Formerly known as the International Auditing Practices Committee (IAPC).
has been given the specific responsibility and authority to issue, on behalf of the Council of IFAC, exposure drafts and Standards on auditing and assurance engagements. The members of the IAASB include representatives of the member bodies of IFAC, representatives from the Forum of Firms, as well as representatives from the public sector, user groups and academia.

14 The Accounting Bodies and the AuASB use their best endeavours to ensure that the Australian Auditing and Assurance Standards and Auditing and Assurance Guidance Statements:

(a) are issued to cover the topics addressed in International Standards on Auditing; and

(b) comply with those Standards.

15 Members are advised that auditing exposure drafts issued by the IAASB, on behalf of IFAC, will generally be available on the IFAC website (www.ifac.org) and the Foundation’s website (www.aarf.asn.au), and will at the same time be generally regarded as Australian auditing exposure drafts unless denoted otherwise. Comments received from members and other interested parties will be considered in the context of the proposed International Standard on Auditing and proposed Australian Auditing and Assurance Standard or Guidance Statement.

16 The AuASB generally uses International Standards on Auditing as a basis for preparation of Australian Auditing and Assurance Standards and Guidance Statements. Members are expected to comply only with the provisions of the Australian Auditing and Assurance Standards and Auditing and Assurance Guidance Statements. It is the responsibility of the AuASB (by virtue of paragraph 14 above) to ensure that this compliance also constitutes compliance with International Standards on Auditing. However, where statutory or other local conditions make it impracticable for an Australian Auditing and Assurance Standard or Auditing and Assurance Guidance Statement to comply with International Standards on Auditing, the nature and extent of any material incompatibility will be noted in the Auditing and Assurance Standard or Auditing and Assurance Guidance Statement.

Due Process

17 An Auditing and Assurance Standard or an Auditing and Assurance Guidance Statement originates from either of two sources, i.e.:  

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3 May also include International Standards on Assurance Engagements (ISAEs) and International Auditing Practice Statements (IAPs) as appropriate.
The AuASB and the IAASB employ extensive due processes in the development of Australian Auditing and Assurance Standards and International Standards on Auditing respectively. These processes are considered essential to ensure that all interested parties are given ample opportunity to express their views and to ensure that the standards, practices and guidelines so developed are relevant, consistent and logically derived. As part of the Australian due process, the expertise of the AuASB is augmented by consultation with qualified individuals, including those from public practice, government, industry, representative bodies and academia.

International Auditing and Assurance Standards Board

An outline of the due process employed by the IAASB in the development of an International Standards on Auditing is as follows (a diagrammatic presentation is given in Appendix 1):

Selection of Topics

Research projects are initiated by the IAASB in response to the identification of emerging issues. This may result from submissions received from interested parties such as representatives to the IAASB or IFAC members, inconsistencies or inadequacies in practice observed by, or brought to the attention of the IAASB, or the development of a pronouncement by an overseas accounting body.

Subcommittee Structure

The working procedure of the IAASB is to select a subject for detailed study by a subcommittee established for that purpose. The subcommittee comprises both members of the IAASB and, when appropriate, representatives from countries and organisations which are not members of the IAASB. The IAASB delegates to the subcommittee the initial responsibility for the research and drafting of an International Standard on Auditing. The subcommittee studies background information in the form of statements, recommendations, studies or standards issued by member bodies, regional organisations, or other bodies, and prepares a background paper summarising the major issues.
Points Outline

22 Based on the issues explored in the background paper prepared by the subcommittee, a points outline is prepared which identifies the principal issues to be resolved in the preparation of a proposed International Standard on Auditing. The points outline is discussed by the IAASB and tentative decisions made. These decisions then form the basis upon which a draft exposure draft is prepared by the project subcommittee.

Exposure Draft

23 The draft exposure draft is forwarded to the IAASB for review. An exposure draft is a document which proposes certain basic auditing principles, essential procedure and related guidance and is released for comment to gauge the appropriateness and the level of acceptance of those proposals. The draft exposure draft is reviewed and amended after consideration of the views expressed by members of the IAASB. The IAASB votes on the issuance of the exposure draft. Through the exposure of a proposed International Standard on Auditing members of the international accounting profession gain access, through various media (for example through publication on the internet), to the auditing and assurance guidance contained in the exposure draft.

24 In Australia, the IAASB exposure draft is generally issued concurrently by the AuASB for consideration by interested parties. Comments on the International/Australian exposure draft are sought on the general principles outlined and on the applicability of those principles in the Australian context. Comments received on the general principles form part of the Australian submission to the IAASB prior to the exposure draft being considered as an International Standard on Auditing.

International Standards on Auditing

25 Submissions received by the IAASB are initially reviewed by the project subcommittee which amends, where considered appropriate, the proposed International Standard on Auditing based on the views expressed in the submissions. The IAASB then reviews the results of the exposure process and amends the proposed International Standard on Auditing where considered appropriate. The IAASB votes on the issuance of the proposed Standard as an International Standard on Auditing (ISA).

26 The Australian representative to the IAASB liaises with the AuASB at various stages during the development of an ISA.
Australian Context

.27 The comments received by the Foundation concerning the applicability of an IAASB exposure draft in the Australian context, together with the resultant International Standard on Auditing, are reviewed by the AuASB. Where considered necessary, the AuASB amends the guidance contained in the International Standard on Auditing to reflect the Australian context, including statutory or other local conditions. The compatibility of Auditing and Assurance Standards or Auditing and Assurance Guidance Statements with the corresponding International Standard on Auditing or International Auditing Practice Statement, together with the nature and extent of any material incompatibility, is noted in the resultant Auditing and Assurance Standards or Auditing and Assurance Guidance Statement.

.28 Where the Statement is to be released as an Auditing and Assurance Standard, it is forwarded to the National Councils of the Accounting Bodies for approval to issue. Auditing and Assurance Guidance Statements are approved and issued by the AuASB and are subject to review by the Presidents of the Accounting Bodies for matters of policy.

Australian Auditing & Assurance Standards Board (AuASB)

.29 An outline of the due process generally employed by the AuASB in the development of an Auditing and Assurance Standard and Auditing and Assurance Guidance Statement is as follows (a diagrammatic presentation for the development of an Auditing and Assurance Standard is given in the Appendix II):

Selection of Topics

.30 Research projects are initiated by the AuASB in response to the identification of emerging issues. This may result from submissions received from interested parties such as auditors and other interested groups regarding inconsistencies or inadequacies in practice, or matters brought to the attention of the AuASB or Foundation staff, identified in research studies, or the development of a pronouncement by an overseas accounting body. A background paper is prepared summarising the major issues identified in statements, recommendations, studies or standards issued by overseas accounting bodies, and the auditing literature generally, together with preliminary comments on the issue in the Australian context.
Project Advisory Panels

31 At the time a project is included on the work programme of the AuASB, consideration is given to whether a project advisory panel needs to be formed. A project advisory panel would be appointed for topics requiring specialist input. In addition to reviewing the progress at key points in the development of the project, this panel serves as a resource base available at all stages of the project.

Points Outline

32 Based on the issues explored in the background paper, the staff or a contractor prepare a points outline which identifies the principal issues to be resolved in the preparation of a proposed Auditing and Assurance Standard or Auditing and Assurance Guidance Statement. The points outline is discussed by the AuASB and tentative decisions are made. These decisions then form the basis upon which a draft exposure draft is prepared or a draft Auditing and Assurance Guidance Statement prepared for review by the AuASB. An exposure draft is a document which proposes certain auditing and assurance standards or auditing and Assurance guidance, and is released for comment to gauge the appropriateness and level of acceptance of those proposals.

Selective Exposure

33 The draft exposure draft of an Auditing and Assurance Standard or where appropriate, a draft Auditing and Assurance Guidance Statement may be refined by the AuASB taking into account comments from auditors, other professional accountants, user groups, individuals, academics, and other parties selected on the basis of their knowledge of, interest in, and involvement with the topic. The draft exposure draft is reviewed and amended after consideration of the views expressed by respondents to the selective exposure.

Auditing and Assurance Standards

Exposure Drafts

34 Following refinement of the draft exposure draft of an Auditing and Assurance Standard, the AuASB votes on the issuance of an exposure draft for public comment. The exposure draft is placed on the Foundation’s website (http://www.aarf.asn.au) and the websites of the Accounting Bodies for public comment by interested parties. They may include not only members of the Accounting Bodies, but also representatives of many diverse entities throughout the community, such as other professional bodies, industry and user groups and government departments and authorities. In conjunction with the release of an exposure draft an article is normally prepared
outlining the major features of the exposure draft and inserted in the monthly journals of the Accounting Bodies, notifying recipients of the release and availability of the exposure draft. In addition, 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.

35 Exposure drafts invite comment from all interested parties on the acceptability or otherwise of proposed basic principles, essential procedures and related guidance. Depending on the topic, forums for further discussion and interchange of opinion may be arranged, for example, seminars and information sessions.

36 After full consideration of all the views expressed in submissions received on an exposure draft, and with due cognisance of public debate generated as a result of the exposure draft, a draft Auditing and Assurance Standard is prepared. This may be followed by another selective exposure which may give rise to further refinements to the document before approval for issue by the AuASB and forwarding to the National Councils of the Accounting Bodies for approval to issue an Auditing and Assurance Standard.

37 It is not until the document is formally approved and issued by the Accounting Bodies that the exhaustive due process is completed and the document achieves the status of an Auditing and Assurance Standard. In conjunction with the issue of the Standard, an article is normally prepared outlining the major features of the Standard and inserted in the monthly journals of the Accounting Bodies.

38 To facilitate understanding of the due process for a Standard, respondents to the exposure draft are provided with a summary of the major issues raised and dealt with by the AuASB, and the reasons for the decisions taken in finalising the Standard. The AuASB will publish a "reasons statement" for each Standard containing the abovementioned information.

Auditing and Assurance Guidance Statements

39 Auditing and Assurance Guidance Statements are not subject to the same public exposure draft process as an Auditing and Assurance Standard. Following consideration of an initial points outline, review of a draft Statement prepared by Foundation staff or a contractor and input from any selective exposure process, the draft is amended, as appropriate, prior to issuance as an Auditing and Assurance Guidance Statement.

40 During the development of an Auditing and Assurance Guidance Statement, it may become apparent that the appropriate course of action is to issue a new Standard or to amend an existing Standard.
In this event the matter is subject to a more extensive due process in keeping with the development of Auditing and Assurance Standards.

Other Publications

.41 Audit and Assurance Guides, Audit and Assurance Alerts, and Discussion Papers and other miscellaneous booklets are not subject to the same due process as Auditing and Assurance Standards. Typically, the process commences with the preparation of a project brief by staff, which outlines the matters to be dealt with in the publication. The AuASB reviews and approves the project brief, the appointment of a project advisory panel (where appropriate), and designates the project as a staff or contractor project. The project advisory panel is appointed as a point of reference for staff or the contractor. The draft publication is reviewed and approved by the AuASB.

.42 As these publications are intended to provide practical assistance in implementing the Auditing and Assurance Standards, or stimulate thought, discussion and debate on matters of auditing theory and practice, the views expressed therein are not necessarily shared by the Accounting Bodies.

Applicability and Scope

.43 Auditing and Assurance Standards and Auditing and Assurance Guidance Statements are intended to apply to all audits and other assurance engagements in the private and public sectors conducted by external auditors and other professional accountants. Any limitation on the applicability of the Standard or Statement would be stated in the text of the specific document.

.44 Auditing and Assurance Standards, while developed primarily in the context of financial report audits, are to be applied, adapted as necessary, to all audits of financial and non-financial information, to all other assurance engagements, and to all audit related services.

.45 Auditing and Assurance Standards and Auditing and Assurance Guidance Statements contain a specific clause indicating their operative date. The requirements of any Standard or Statement remain in force until the operative date of any amendment to those requirements or until the Statement is withdrawn by the Accounting Bodies.
Review and Revision

.46 In recognition of the changing environment in which Auditing and Assurance Standards and Auditing and Assurance Guidance Statements are developed and applied, the AuASB undertakes a regular program of review and revision of existing Standards and other pronouncements. Any amendments to such Standards and Statements are approved by the Accounting Bodies and issued to holders of the Members’ Handbooks of the Accounting Bodies in the normal manner.

Consultative Process

.47 The AuASB has an established consultative process to provide for improved communication between the AuASB and the various groups interested in and affected by the auditing and assurance standard-setting process.

.48 Consultation with various interested parties is important so as to advise the AuASB on:

(a) the AuASB’s work program;
(b) the adequacy of the “due process” for the development of auditing standards;
(c) controversial matters of relevance to the AuASB; and
(d) the impact of the AuASB’s work on the auditing profession and the broader community.

Participation in Due Process

.49 Interested parties are encouraged to participate in the development of Auditing and Assurance Standards, Auditing and Assurance Guidance Statements and other publications of the AuASB. Any comments should be addressed to:

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AUS 102 “FOREWORD TO AUSTRALIAN AUDITING AND ASSURANCE STANDARDS AND GUIDANCE STATEMENTS”

APPENDIX 2
SUMMARY OF THE DUE PROCESS FOR THE DEVELOPMENT OF AN AUSTRALIAN AUDITING AND ASSURANCE STANDARD EMPLOYED BY THE AUDITING & ASSURANCE STANDARDS BOARD

- Essential Stages
- Discretionary Stages