



August 2014

**PRINCIPLES OF CONVERGENCE TO  
INTERNATIONAL STANDARDS OF THE  
INTERNATIONAL AUDITING AND ASSURANCE  
STANDARDS BOARD (IAASB)**

**AND**

**HARMONISATION WITH THE STANDARDS OF THE  
NEW ZEALAND AUDITING AND ASSURANCE  
STANDARDS BOARD (NZAuASB)**

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# ***Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB)***

***and***

## ***Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB)***

### **Application Date**

1. The policies detailed in this paper apply from 1 August 2014.

### **Introduction**

2. The key strategic objectives set by the Financial Reporting Council (FRC) for the Auditing and Assurance Standards Board (AUASB) include using the International Standards on Auditing (ISAs) to develop Australian Auditing Standards, and modifying the ISAs to conform to the Australian regulatory environment.

### **Objectives**

3. In implementing the FRC's strategic direction, the AUASB has determined the following objectives:
  - (a) To adopt international auditing and assurance standards in Australia unless there are strong reasons not to (which the AUASB describes as "compelling reasons"); and
  - (b) To work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) towards the establishment of harmonised standards based on international standards.

### **Policies**

4. The AUASB may consider modifying international standards for application in Australia under either of those objectives. The AUASB considers such modifications acceptable provided that they consider the public interest<sup>1</sup>, and do not conflict with, or result in lesser requirements than, the international standards.
5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with New Zealand standards to be used as the framework for the standard setting process of the AUASB.
6. It is expected that this paper will be revised from time to time to take account of changes to the Australian financial reporting framework.
7. The principles of convergence set out in this paper adhere to the principles set out in the IAASB Policy Position, *Modifications to International Standards of the IAASB - A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications* (July 2006).
8. The principles of convergence to the IAASB standards are set out in a flowchart in Appendix 1, and the principles of harmonisation with the New Zealand standards are set out in a flowchart in Appendix 2.

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<sup>1</sup> IFAC defines the public interest as "*The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy*". Refer IFAC Policy Position 5, *A Definition of the Public Interest*, June 2012.

## **Overarching principles of convergence with International Standards**

9. The international standards should be adopted, and should be modified only if there are compelling reasons to do so.
10. In the case of an international standard that is being reviewed for the purpose of adoption in Australia, the compelling reasons test for modifications in the public interest is triggered where the international standard does not reflect, or is not consistent with:
  - (a) The Australian regulatory arrangements; or
  - (b) Principles and practices that are considered appropriate in Australia (including in the use of significant terminology).
11. Where the international standard does not reflect, or is not consistent with, the Australian regulatory arrangements, the following criteria have to be met before the standard is modified:
  - (a) The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia; and
  - (b) The modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than, the international standard.
12. Where the international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in Australia, the following criteria have to be met before the standard is modified:
  - (a) The standard can be modified so as to result in a standard that:
    - (i) The application of which results in compliance with principles and practices considered appropriate by the AUASB;
    - (ii) Is clear and promotes consistent application by all practitioners in Australia;
    - (iii) Promotes significant improvement in audit/assurance quality (as described by the IAASB's *Framework for Audit Quality*) in the Australian environment; and
  - (b) The relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and the cost of differing from international standards and the New Zealand standards, and benefit primarily relating to audit/assurance quality); and
  - (c) The modification to the standard does not result in a standard that:
    - (i) Conflicts with, or results in lesser requirements than, the international standard;
    - (ii) Is overly complex and confusing; or
    - (iii) Inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in Australia than necessary.

## **Overarching principles of harmonisation with New Zealand Standards**

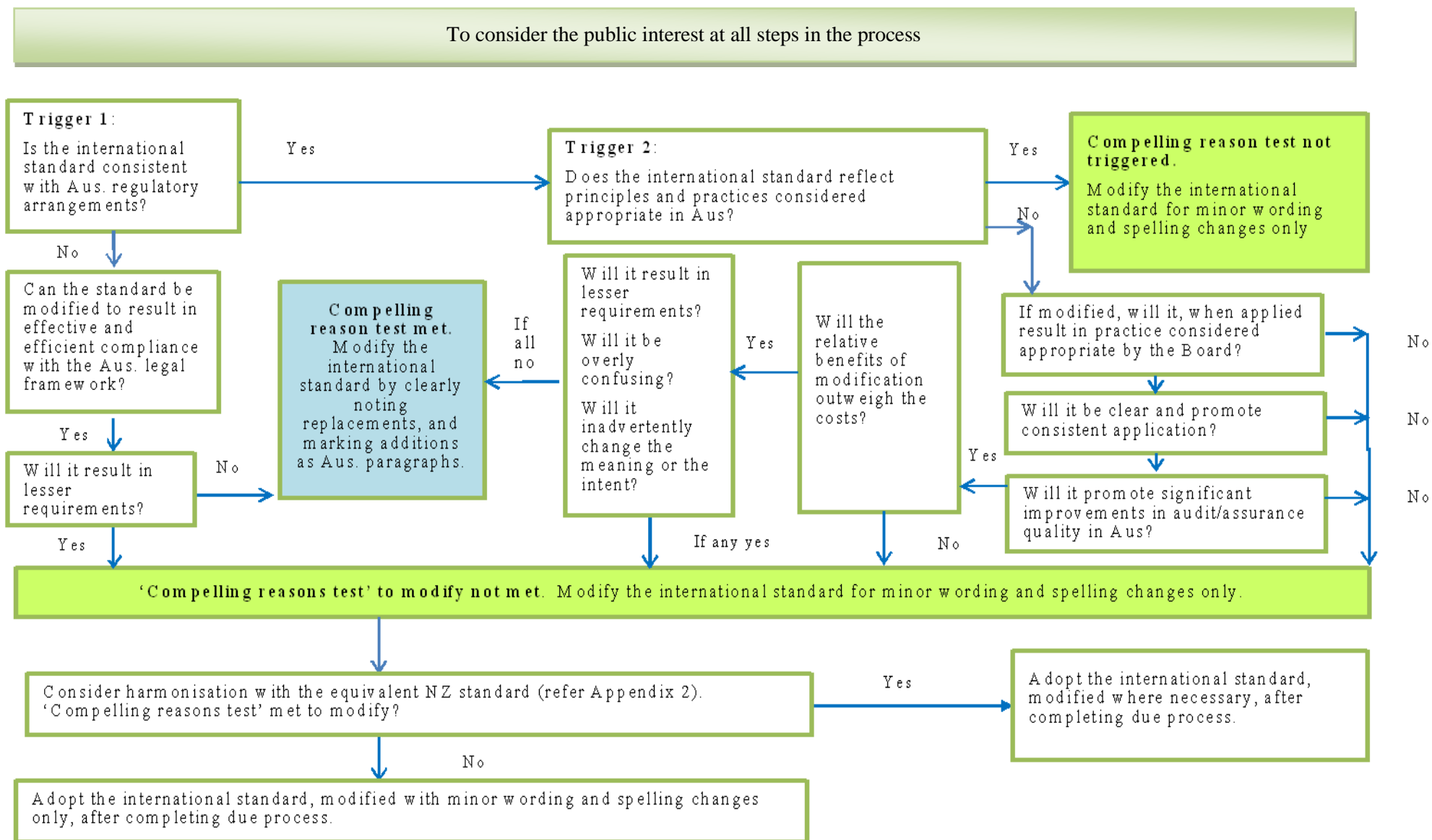
13. When considering harmonisation with a New Zealand standard, the compelling reasons test for modification of the international standard in the public interest is triggered where the New Zealand standard covers a matter not covered in the international standard, and that gap is also relevant in the Australian standard.
14. Once the compelling reason test has been triggered, the following criteria have to be met before the standard is modified:
  - (a) The standard can be modified so as to result in a standard that:

- (i) The application of which results in compliance with the legal framework or principles or practices considered appropriate by the AUASB;
  - (ii) Is clear and promotes consistent application by all practitioners in Australia;
  - (iii) Promotes significant improvements in audit/assurance quality (as described by the IAASB's *Framework for Audit Quality*) in the Australian environment; and
- (b) The relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and cost of differing from the international standard and the benefit primarily relating to audit/assurance quality); and
- (c) The modification to the standard does not result in a standard that:
- (i) Conflicts with, or results in lesser requirements than, the international standard;
  - (ii) Is overly complex and confusing; or
  - (iii) Inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in Australia than necessary.

## General

15. When considering developing a standard for which there is no equivalent international standard, compelling reasons for developing the standard are:
- (a) The standard addresses public interest matters within the Australian environment;
  - (b) The standard will promote significant improvements in audit/assurance quality in the Australian environment; and
  - (c) The benefits of applying the standard will outweigh the costs (with costs primarily being compliance costs and benefits primarily relating to audit/assurance quality).
16. The development of an Australian standard should be harmonised with the equivalent New Zealand standard by adopting the New Zealand standard, where applicable. Compelling reasons for differences between Australian and New Zealand standards are where:
- (a) Different regulatory requirements apply; and/or
  - (b) Different practices are considered appropriate (including the use of significant terminology).
17. Any deletions from the international standards should be clearly noted, and any additions clearly marked as Australian paragraphs.
18. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the Australian standard as a modification to the international standard.
19. Each AUASB Standard issued prior to 1 July 2012 will be assessed for compliance with the policies in this paper in accordance with the AUASB work program.

Flowchart to Depict the ‘Compelling Reasons Test’ in the Principles of Convergence with the IAASB Standards



**Flowchart to Depict the 'Compelling Reasons Test' in the Principles of Harmonisation with the New Zealand Standards**

