

**EXPOSURE DRAFT**

**ED 02/18**

(August 2018)

# **Proposed Auditing Standard ASA 2018-1** *Amendments to Australian Auditing Standards*

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



**Australian Government**

---

**Auditing and Assurance Standards Board**

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 15 October 2018. 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)

## Contact Details

Auditing and Assurance Standards Board  
Podium Level 14, 530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204, Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

## COPYRIGHT

© 2018 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Exposure Draft are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Technical Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au). Otherwise, no part of this Exposure Draft may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

This Exposure Draft reproduces substantial parts of Exposure Draft *Proposed International Standard on Auditing 315 (Revised)* issued by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC), in the manner described in the statement on Conformity with International Standards on Auditing. The AUASB acknowledges that IFAC is the owner of copyright in the International Standard on Auditing incorporated in this Exposure Draft throughout the world.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only.

Further information and requests for authorisation to reproduce this Exposure Draft for commercial purposes outside Australia should be addressed to the Technical Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au). Any decision to approve a request may also require the agreement of IFAC.

ISSN 1030-603X

## CONTENTS

PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

	<i>Paragraphs</i>
<b>Application</b> .....	9-10
<b>Operative Date</b> .....	11
<b>Introduction</b>	
Scope of this Auditing Standard.....	12
<b>Objective</b> .....	13
<b>Definition</b> .....	14
<b>Amendments to Auditing Standards</b>	
Amendments to ASA 200.....	15-24
Amendments to ASA 240.....	25-46
Amendments to ASA 330.....	47-83
Amendments to ED 03/18.....	84-138
Appendix 1: Other Conforming and Consequential Amendments	
Appendix 2: Consequential Amendments to ASA 200 as a Result of Changes Proposed by ED 03/18 <i>Proposed ASA 540</i> and ED 02/18 <i>Proposed ASA 315</i>	

## PREFACE

### Reasons for Issuing ED 02/18

The AUASB issues exposure draft ED 02/18 of proposed Auditing Standard ASA 2018-1 *Amendments to Australian Auditing Standards* 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. Under the Strategic Direction, the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

### Main Proposals

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

- |          |   |
|----------|---|
| ASA 200  | <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i><br>(Issued October 2009 and amended to December 2015) |
| ASA 240  | <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i><br>(Issued October 2009 and amended to May 2017);   |
| ASA 330  | <i>The Auditor's Responses to Assessed Risks</i><br>(Issued October 2009 and amended to December 2015); and   |
| ED 03/18 | <i>Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures</i>   |

In addition to these, conforming and consequential amendments to other Australian Auditing Standards have been presented in Appendix 1. These changes, in the view of the AUASB, are generally straight forward as they are largely definition changes so have been presented in table format for practicality.

The amendments arise from proposed changes by the International Auditing and Assurance Standards Board (IAASB) in Proposed International Standard on Auditing 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*.

For background to, and explanation of, the conforming and consequential amendments proposed in ED 02/18, refer to Explanatory Memorandum *Exposure Draft 01/18: Proposed Auditing Standard 315 Identifying and Assessing the Risks of Material Misstatement and Exposure Draft 02/18: Proposed Auditing Standard ASA 2018-1 Amendments to Australian Auditing Standards*.

## **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 15 December 2020, with early adoption permitted.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2018-1 *Amendments to Australian Auditing Standards* by no later than 15 October 2018.

Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when responding to the IAASB on their ED:

1. With respect to the proposed conforming and consequential amendments to:
  - (a) ASA 200 (including Appendix 2), ASA 240 and ED 03/18, are these appropriate to reflect the corresponding changes made in proposed ASA 315?
  - (b) ASA 330, are the changes appropriate in light of the enhancements that have been made in proposed ASA 315, in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?
  - (c) The other ASAs as presented in Appendix 1, are these appropriate and complete?
2. Do you support the proposed revisions to paragraph 18 of ASA 330 to apply to classes of transactions, account balances or disclosures that are ‘quantitatively or qualitatively material’ to align with the scope of the proposed stand-back in proposed ASA 315?
3. Effective Date: the IAASB have proposed that the standard will be effective for financial reporting periods commencing on or after 15 December 2020, which is anticipated to be approximately 18 months after approval of the final ISA 315. Do you think this is sufficient period to support effective implementation of the new standard?

### **Australian specific questions**

The AUASB is especially interested in stakeholders views on:

4. 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?
5. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
6. 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 standard, or may conflict with the proposed standard?
7. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
  - (a) Where those costs are likely to occur;
  - (b) The estimated extent of costs, in percentage terms (relative to audit fee); and
  - (c) Whether expected costs outweigh the benefits to the users of audit services?
8. Are there any other significant public interest matters that stakeholders wish to raise?

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2018-1 *Amendments to Australian Auditing 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).

# AUDITING STANDARD ASA 2018-1

## *Amendments to Australian Auditing Standards*

### **Application**

9. This Auditing Standard applies 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 2001*; and
  - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
10. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

### **Operative Date**

11. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2020.

### **Introduction**

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

12. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments arise from conforming and consequential changes arising from the issuance of ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

### **Objective**

13. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
  - (a) *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Issued October 2009 and amended to December 2015))
  - (b) *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (Issued October 2009 and amended to May 2017); and
  - (c) *ASA 330 The Auditor's Responses to Assessed Risks* (Issued October 2009 and amended to December 2015).); and
  - (d) *ED 03/18 Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures*

### **Definition**

14. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*.



## **Amendments to Auditing Standards**

### **Amendments to ASA 200**

15. Existing paragraph 7 is amended to read as follows:

The Australian Auditing Standards contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The Australian Auditing Standards require that the auditor exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit and, among other things:

- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- Form an opinion on the financial report based on conclusions drawn from the audit evidence obtained.

16. Existing paragraph 13 is amended to read as follows:

For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (n) Risk of material misstatement means the risk that the financial report is materially misstated prior to audit. This consists of two components, described as follows at the assertion level:
- (i) ...
  - (ii) Control risk means the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's ~~internal~~ controls.

17. Existing footnote 17 to paragraph A30 is amended to read as follows:

See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 21 9.

18. Existing paragraph A40 is amended to read as follows:

Inherent risk is influenced by the characteristics of events or conditions that affect the susceptibility to misstatement of an higher for some assertions about a and related classes of transactions, account balances, or and disclosures than for others, before consideration of controls (i.e. inherent risk factors). Depending on the extent to which the assertion is subject to, or affected by, such inherent risk factors, the level of inherent risk varies along the spectrum of inherent risk. The auditor determines significant classes of transactions, account balances and disclosures, and their relevant assertions, as part of the process of identifying and assessing the risks of material misstatement. For example, it may be higher for complex calculations or for accounts balances consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty may be identified as significant account balances, and the auditor's assessment of inherent risk for the related risks at the assertion level may be higher because of the high estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more

susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterised by a large number of business failures.

19. Existing paragraph A41 is amended to read as follows:

Control risk is a function of the effectiveness of the design, implementation and maintenance of ~~internal~~ controls by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial report. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial report, because of the inherent limitations of ~~internal~~ controls. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The Australian Auditing Standards provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.<sup>18</sup>

20. Existing paragraph A42 is amended (including the insertion of a footnote \*). Details of the proposed changes have been outlined in Appendix 2 of this exposure draft.

21. The following paragraph and footnote(\*) are inserted following existing paragraph A43:

Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.\*

\* See ASA 330, paragraph 6

22. Existing footnote 21 to paragraph A52 is amended to read as follows:

See ASA 315, paragraphs ~~517-2240~~.

23. Existing paragraph A66 is amended to read as follows:

For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:

(a) ...

(b) One or more of the following:

- (i) Straightforward or uncomplicated transactions;
- (ii) Simple record-keeping;
- (iii) Few lines of business and few products within business lines;
- (iv) Simpler systems of ~~Few~~ internal controls;
- (v) Few levels of management with responsibility for a broad range of controls; or
- (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

24. The following paragraph is inserted following existing paragraph A67:

ASA 315 incorporates considerations specific to audits of smaller entities when such entities are also less complex (i.e. smaller entities for which the majority of the characteristics in paragraph A66(b) apply). Accordingly, in this context, ASA 315 refers to ‘smaller and less complex entities’.

#### **Amendments to ASA 240**

25. Existing paragraph 7 is amended to read as follows:

Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override controls ~~procedures~~ designed to prevent similar frauds by other employees.

26. Existing footnote 6 to paragraph 16 is amended to read as follows:

See ASA 315, paragraph ~~224~~

27. Existing paragraph 17 and footnote 7 are amended to read as follows:

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, the applicable financial reporting framework and including the entity’s system of internal control, required by ASA 315<sup>7</sup>, the auditor shall perform the procedures in paragraphs ~~2448–4525~~ to obtain information for use in identifying the risks of material misstatement due to fraud.

28. Existing paragraph 21 is amended to read as follows:

Unless all of those charged with governance are involved in managing the entity,<sup>8</sup> the auditor shall obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the ~~internal controls~~ that management has established to mitigate these risks. (Ref: Para. A20-A22)

29. Existing footnote 9 to paragraph 26 is amended as follows:

See ASA 315, paragraphs ~~25, 47(a) and 48~~

30. Existing paragraph 28 is amended (including the insertion of a new footnote \*) to read as follows:

The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall ~~obtain an understanding of the entity’s related~~ identify the entity’s controls, including control activities, relevant to that address such risks as controls relevant to the audit, and evaluate their design and determine whether they have been implemented.\* (Ref: Para. A32–A33)

\* See ASA 315, paragraphs 39(b) and 42.

31. Existing paragraph 45 is amended to read as follows:

The auditor shall include the following in the audit documentation<sup>12</sup> ~~of the auditor's understanding of the entity and its environment and of the identification and~~ the assessment of the risks of material misstatement required by ASA 315.<sup>13</sup>

- (a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial report to material misstatement due to fraud; ~~and~~
- (b) The identified and assessed risks of material misstatement due to fraud at the financial report level and at the assertion level; ~~and~~
- (c) Controls identified to be relevant to the audit because they address assessed risks of material misstatement due to fraud.

32. Existing footnote 13 to paragraph 45 is amended to read as follows:

See ASA 315, paragraph ~~543~~2

33. Existing paragraph A8 is amended to read as follows:

Maintaining professional scepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and the controls over its preparation and maintenance ~~where~~ when such controls are identified to be controls relevant to the audit. Due to the characteristics of fraud, the auditor's professional scepticism is particularly important when considering the risks of material misstatement due to fraud.

34. Existing footnote 17 to paragraph A19 is amended to read as follows:

See ASA 315, paragraphs ~~186(a) and 3423~~, and ASA 610, *Using the Work of Internal Auditors*.

35. Existing paragraph A20 is amended to read as follows:

Those charged with governance of an entity oversee the entity's systems for monitoring risk, financial control and compliance with the law. In many circumstances, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of the risks of fraud and ~~of the relevant internal control~~ the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by the circumstances, it is important that the auditor understands their respective responsibilities to enable the auditor to obtain an understanding of the oversight exercised by the appropriate individuals.<sup>18</sup>

36. Existing paragraph A21 is amended to read as follows:

An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to management fraud, the adequacy of ~~internal controls that address~~ over risks of fraud, and the competency and integrity of management. The auditor may obtain this understanding in a number of ways, such as by attending meetings where such discussions take place, reading the minutes from such meetings or making enquiries of those charged with governance.

37. Existing paragraph A23 is amended to read as follows:

In addition to information obtained from applying analytical procedures, other information obtained about the entity and its environment, the applicable financial reporting framework

and the entity's system of internal control may be helpful in identifying the risks of material misstatement due to fraud. The discussion among team members may provide information that is helpful in identifying such risks. In addition, information obtained from the auditor's client acceptance and retention processes, and experience gained on other engagements performed for the entity, for example, engagements to review interim financial information, may be relevant in the identification of the risks of material misstatement due to fraud.

38. Existing paragraph A26 is amended (including the insertion of two footnotes, \* and ^) to read as follows:

Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative risk factors are classified based on the three conditions that are generally present when fraud exists:

- An incentive or pressure to commit fraud;
- A perceived opportunity to commit fraud; and
- An ability to rationalise the fraudulent action.

Fraud risk factors related to incentives, pressures or opportunities may arise from conditions that create susceptibility to misstatements due to management bias or fraud (which is an inherent risk factor). \* Alternatively, fraud risk factors may relate to conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to rationalise fraudulent actions. Risk factors reflective of an attitude that permits rationalisation of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information through, for example, the required understanding of the entity's control environment. ^ Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other risk factors may exist.

\* See ASA 315, paragraph 16(f).

^ See ASA 315, paragraphs 27-28.

39. Existing paragraph A33 is amended to read as follows:

It is therefore important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud. ~~In doing so,~~ In identifying the controls relevant to the audit that address the risks of material misstatement due to fraud, the auditor may learn, for example, that management has consciously chosen to accept the risks associated with a lack of segregation of duties. ~~Information from obtaining this understanding~~ identifying these controls, and evaluating their design and determining whether they have been implemented, may also be useful in identifying fraud risks factors that may affect the auditor's assessment of the risks that the financial report may contain material misstatement due to fraud.

40. Existing paragraph A43 is amended (including the insertion of a new footnote \*) to read as follows:

Further, the auditor's consideration of the risks of material misstatement associated with inappropriate override of controls over journal entries\* is important since automated processes and controls may reduce the risk of inadvertent error but do not overcome the risk that individuals may inappropriately override such automated processes, for example, by changing the amounts being automatically passed to the general ledger or to the financial reporting system. Furthermore, where IT is used to transfer information automatically, there may be little or no visible evidence of such intervention in the information systems.

\* See ASA 315, paragraph 39(c).

41. Existing paragraph A44 is amended to read as follows:

When identifying and selecting journal entries and other adjustments for testing and determining the appropriate method of examining the underlying support for the items selected, the following matters are of relevance:

- *The identification and assessment of the risks of material misstatement due to fraud – the presence of fraud risk factors and other information obtained during the auditor’s identification and assessment of the risks of material misstatement due to fraud may assist the auditor to identify specific classes of journal entries and other adjustments for testing.*
- *Controls that have been implemented over journal entries and other adjustments – effective controls over the preparation and posting of journal entries and other adjustments may reduce the extent of substantive testing necessary, provided that the auditor has tested the operating effectiveness of the controls.*
- *The entity’s financial reporting process and the nature of evidence that can be obtained – for many entities routine processing of transactions involves a combination of manual and automated ~~steps and procedures~~ controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated ~~procedures and~~ controls. Where information technology is used in the financial reporting process, journal entries and other adjustments may exist only in electronic form.*
- *The characteristics of fraudulent journal entries or other adjustments – inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries (a) made to unrelated, unusual, or seldom-used accounts, (b) made by individuals who typically do not make journal entries, (c) recorded at the end of the period or as post-closing entries that have little or no explanation or description, (d) made either before or during the preparation of the financial report that do not have account numbers, or (e) containing round numbers or consistent ending numbers.*
- *The nature and complexity of the accounts – inappropriate journal entries or adjustments may be applied to accounts that (a) contain transactions that are complex or unusual in nature, (b) contain significant estimates and period-end adjustments, (c) have been prone to misstatements in the past, (d) have not been reconciled on a timely basis or contain unreconciled differences, (e) contain inter-company transactions, or (f) are otherwise associated with an identified risk of material misstatement due to fraud. In audits of entities that have several locations or components, consideration is given to the need to select journal entries from multiple locations.*
- *Journal entries or other adjustments processed outside the normal course of business – nonstandard journal entries may not be subject to the same level of internal nature and extent of controls as those journal entries used on a recurring basis to record transactions such as monthly sales, purchases and cash disbursements.*

*Amendments to ASA 240 Appendix 1*

42. Under the heading *Examples of Fraud Risk Factors*, the following paragraph is inserted following the existing paragraph:

Fraud risk factors related to incentives or pressures typically arise from conditions that create susceptibility to misstatement due to management bias or fraud (which is an inherent risk factor). Fraud risk factors related to opportunities may also arise from other identified inherent risk factors (e.g., complexity or uncertainty may create opportunities that result in

susceptibility to misstatement due to fraud). Fraud risk factors related to opportunities may also relate to conditions within the entity's system of internal control, such as limitations or deficiencies in the entity's internal control that create such opportunities. Fraud risk factors related to attitudes or rationalisations may arise, in particular, from limitations or deficiencies in the entity's control environment.

43. Under the heading *Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting* and sub-heading *Opportunities*, the fourth paragraph is amended to read as follows:

~~Internal control components are deficient~~ Deficiencies in internal control as a result of the following:

- Inadequate ~~monitoring of controls~~ process to monitor the entity's system of internal control, including automated controls and controls over interim financial reporting (where external reporting is required).
- High turnover rates or employment of staff in accounting, information technology, or the internal audit function that are not effective.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

44. Under the heading *Risk Factors Relating to Misstatements Arising from Misappropriation of Assets* and sub-heading *Opportunities*, the second paragraph is amended to read as follows:

Inadequate ~~internal~~ controls over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- ...
- ...

45. Under the heading *Risk Factors Relating to Misstatements Arising from Misappropriation of Assets* and sub-heading *Attitudes/Rationalisation*, the second point is amended to read as follows:

- Disregard for ~~internal~~ controls over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.

#### *Amendments to ASA 240 Appendix 2*

46. Under the heading *Consideration at the Assertion Level* the ninth point is amended to read as follows:

If the work of an expert becomes particularly significant with respect to a financial statement item for which the assessed risk of material misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods or findings to determine that the findings are not unreasonable, or engaging another expert for that purpose.

#### **Amendments to ASA 330**

47. Existing footnote 1 to paragraph 1 is amended to read as follows:

See ASA 315, *Identifying and Assessing the Risks of Material Misstatement* ~~through Understanding the Entity and Its Environment~~.

48. Existing paragraph 6 is amended to read as follows:

The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. (Ref: Para. A4–A8; A42-A52)

49. Existing paragraph 7 is amended to read as follows:

In designing the further audit procedures to be performed, the auditor shall:

- (a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant class of transactions, account balance, and disclosure, including:
  - (i) The likelihood and magnitude of material misstatement due to the particular characteristics of the ~~relevant~~ significant class of transactions, account balance, or disclosure (that is, the inherent risk); and
  - (ii) Whether the risk assessment takes account of ~~relevant~~ controls that address the risk of material misstatement (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and (Ref: Para. A9–A18)
- (b) Obtain more persuasive audit evidence the higher the auditor’s assessment of risk. (Ref: Para. A19)

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

The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls if:

- (a) ...
- (b) ...

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

In designing and performing tests of controls, the auditor shall:

- (a) Perform other audit procedures in combination with enquiry to obtain audit evidence about the operating effectiveness of the controls, including:
  - (i) How the controls were applied at relevant times during the period under audit;
  - (ii) The consistency with which they were applied; and
  - (iii) By whom or by what means they were applied. (Ref: Para. A26-A29<sub>a</sub>)
- (b) To the extent not already addressed, ~~d~~determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls. (Ref: Para. A30-A31)

52. Existing paragraph 13 is amended to read as follows:

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:



(a) The effectiveness of other ~~elements~~ components of the entity's system of internal control, including the control environment, the entity's process to monitoring of the system of internal controls, and the entity's risk assessment process;

(b) ...

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

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance and reliability of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing enquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:

(a) ...

(b) ...

54. Existing paragraph 16 is amended to read as follows:

When evaluating the operating effectiveness of ~~relevant~~ controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. (Ref: Para. A40)

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

If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific enquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A41)

(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;

(b) Additional tests of controls are necessary; or

(c) The ~~potential~~ risks of material misstatement need to be addressed using substantive procedures.

56. Existing paragraph 18 is amended to read as follows:

Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each ~~material~~ class of transactions, account balance, and disclosure that is quantitatively or qualitatively material. (Ref: Para. A42–A47)

57. Existing paragraph 27 is amended to read as follows:

If the auditor has not obtained sufficient appropriate audit evidence as to the risk of material misstatement related to a material financial report relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial report.

58. Existing paragraph A1 is amended to read as follows:

Overall responses to address the assessed risks of material misstatement at the financial report level may include:

- Emphasising to the engagement team the need to maintain professional scepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Providing more supervision Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Changes to the overall audit strategy as required by ASA 300, or planned audit procedures, and may include changes to:
  - The auditor's determination of performance materiality in accordance with ASA 320.
  - The auditor's plans to tests the operating effectiveness of controls, and the persuasiveness of audit evidence needed to support the planned reliance on the operating effectiveness of the controls, particularly when deficiencies in the control environment or the entity's monitoring activities are identified.
  - The nature, timing and extent of substantive procedures. For example, it may be appropriate to perform substantive procedures at or near the date of the financial report when the risk of material misstatement is assessed as higher.
- Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.

59. Existing paragraph A4 is amended to read as follows:

The auditor's assessment of the identified risks of material misstatement at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. For example, the auditor may determine that:

- (a) ...
- (b) ...
- (c) ...

However, as required by paragraph 18, irrespective of the approach selected, the auditor designs and performs substantive procedures for each ~~material~~ class of transactions, account balance, and disclosure that is quantitatively or qualitatively material.

60. Existing paragraph A9 is amended (including the insertion of a new footnote \*) to read as follows:

ASA 315 requires that the auditor's assessment of the risks of material misstatement at the assertion level is performed by assessing inherent risk and control risk. The auditor assesses inherent risk by assessing the likelihood and magnitude of a material misstatement taking into account how, and the degree to which, identified events or conditions relating to significant classes of transactions, account balances or disclosures are subject to, or affected by, the

inherent risk factors.\* The auditor's assessed risks, including the reasons for those assessed risks, may affect both the types of audit procedures to be performed and their combination. For example, when an assessed risk is high, the auditor may confirm the completeness of the terms of a contract with the counterparty, in addition to inspecting the document. Further, certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of material misstatement of the completeness assertion, whereas substantive procedures may be most responsive to the assessed risk of material misstatement of the occurrence assertion.

\* See ASA 315, paragraph 48.

61. Existing paragraph A10 is amended to read as follows:

The reasons for the assessment given to a risk are relevant in determining the nature of audit procedures. For example, if an assessed risk is lower because of the particular characteristics of a class of transactions without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone provide sufficient appropriate audit evidence. On the other hand, if the assessed risk is lower because of ~~internal~~ the operating effectiveness of controls, and the auditor intends to base the substantive procedures on that low assessment, then the auditor performs tests of those controls, as required by paragraph 8(a). This may be the case, for example, for a class of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

62. Existing paragraph A18 is amended to read as follows:

In the case of smaller entities, there may not be many controls ~~activities~~ that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. In some rare cases, however, the absence of controls ~~activities~~ or of ~~other~~ components of the system of internal control may make it impossible to obtain sufficient appropriate audit evidence.

63. Existing paragraph A20 is amended to read as follows:

Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in ~~an~~ relevant assertion, and the auditor intends to rely upon those controls. If substantially different controls were used at different times during the period under audit, each is considered separately.

64. Existing paragraph A24 is amended to read as follows:

In some cases, the auditor may find it impossible to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence at the assertion level.<sup>3</sup> This may occur when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system. In such cases, paragraph 8(b) requires the auditor to perform tests of ~~relevant~~ controls that address the risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

65. Existing footnote 3 is amended to read as follows:

See ASA 315, paragraph ~~5130~~.

66. Existing paragraph A27 is amended to read as follows:

The nature of the particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively. For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness. For other controls, however, documentation may not be available or relevant. For example, documentation of operation may not exist for some factors in the control environment, such as assignment of authority and responsibility, or for some types of controls activities, such as ~~automated controls activities performed by a computer~~. In such circumstances, audit evidence about operating effectiveness may be obtained through enquiry in combination with other audit procedures such as observation or the use of CAATs.

67. Existing paragraph A29 is amended to read as follows:

Because of the inherent consistency of IT processing, it may not be necessary to increase the extent of testing of an automated control. An automated controls can be expected to function consistently unless the ~~program~~ IT application (including the tables, files, or other permanent data used by the ~~program~~ IT application) is changed. Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing tests to determine that the control continues to function effectively. Such tests ~~might~~ may include ~~testing the general IT controls related to the IT application.~~ determining that:

- ~~Changes to the program are not made without being subject to the appropriate program change controls;~~
- ~~The authorised version of the program is used for processing transactions; and~~
- ~~Other relevant general controls are effective.~~

~~Such tests also might include determining that changes to the programs have not been made, as may be the case when the entity uses packaged software applications without modifying or maintaining them. For example, the auditor may inspect the record of the administration of IT security to obtain audit evidence that unauthorised access has not occurred during the period.~~

68. The following paragraph is inserted following existing paragraph A29:

Similarly, the auditor may perform tests of controls that address risks of material misstatement related to the integrity of the entity's data, or the completeness and accuracy of the entity's system-generated reports, or to address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. These tests of controls may include tests of general IT controls that address the matters in paragraph 10(a). When this is the case, the auditor may not need to perform any further testing to obtain audit evidence about the matters in paragraph 10(a).

69. The following paragraph (including a footnote \*) is inserted following existing paragraph A29 and the above insertion:

When the auditor determines that a general IT control is deficient, the auditor may consider the nature of the related risk(s) arising from the use of IT that were identified in accordance with ASA 315\* to provide the basis for the design of the auditor's additional procedures to determine whether the underlying controls affected by the deficient general IT control functioned throughout the period. Such procedures may address determining whether:

- The related risk(s) arising from IT has occurred. For example, if users have unauthorised access to an IT application (but cannot access or modify the system logs that track access), the auditor may inspect the system logs to obtain audit evidence that those users did not access the IT application during the period.

- There are any alternate or redundant general IT controls, or any other controls, that address the related risk(s) arising from the use of IT. If so, the auditor may determine such controls to be relevant to the audit (if not already relevant to the audit) and therefore evaluate their design, determine that they have been implemented and perform tests of their operating effectiveness. For example, if a general IT control related to user access is deficient, the entity may have an alternate control whereby IT management reviews end user access reports on a timely basis. Circumstances when an application control may address a risk arising from the use of IT may include when the information that may be affected by the general IT control deficiency can be reconciled to external sources (e.g., a bank statement) or internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

\* See ASA 315, paragraph 41.

70. Existing paragraph A30 is amended to read as follows:

In some circumstances, it may be necessary to obtain audit evidence supporting the effective operation of indirect controls (e.g., general IT controls). As explained in paragraphs A29 to A29b, general IT controls may have been determined to be relevant to the audit in accordance with ASA 315 because of their support of the operating effectiveness of automated controls or due to their support in maintaining the integrity of information used in the entity's financial reporting, including system-generated reports. The requirement in paragraph 10(b) acknowledges that the auditor may have already tested certain indirect controls to address the matters in paragraph 10(a). For example, when the auditor decides to test the effectiveness of a user review of exception reports detailing sales in excess of authorised credit limits, the user review and related follow up is the control that is directly of relevance to the auditor. Controls over the accuracy of the information in the reports (for example, general IT controls) are described as "indirect" controls.

71. Existing paragraph A31 is deleted.

72. Existing paragraph A32 is amended to read as follows:

Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, for example, when testing controls over the entity's physical inventory counting at the period end. If, on the other hand, the auditor intends to rely on a control over a period, tests that are capable of providing audit evidence that the control operated effectively at relevant times during that period are appropriate. Such tests may include tests of controls in the entity's process to monitoring of the system of internal controls.

73. Existing paragraph A35 is amended to read as follows:

In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance and reliability. For example, in performing a previous audit, the auditor may have determined that an automated control was functioning as intended. The auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, enquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to be obtained in the current period about the operating effectiveness of the controls.

74. Existing paragraph A36 is amended to read as follows:

Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued reliance. For example, changes in a system that enable an entity to receive a new report from the system probably do not affect the relevance of audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently does affect it.

75. Existing paragraph A38 is amended to read as follows:

In general, the higher the risk of material misstatement, or the greater the reliance on controls, the shorter the time period elapsed, if any, is likely to be. Factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:

- A deficient control environment.
- A ~~Deficiency~~ in the entity's process to monitoring of the system of internal controls.
- A significant manual element to ~~the relevant~~ controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.
- Deficient general IT controls.

76. Existing paragraph A42 is amended (including the insertion of a new footnote \*) to read as follows:

Paragraph 18 requires the auditor to design and perform substantive procedures for each ~~material~~ class of transactions, account balance, and disclosure, ~~irrespective of the assessed risks of material misstatement, that is quantitatively or qualitatively material. For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 6 requires the auditor to design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level. Accordingly, substantive procedures are required to be designed and performed in accordance with paragraph 18:~~

- When the further audit procedures designed and performed in accordance with paragraph 6 for significant classes of transactions, account balances or disclosures did not include substantive procedures; or
- For each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as quantitatively or qualitatively material in accordance with ASA 315.\*

This requirement reflects the facts that: (a) the auditor's assessment of risk is judgemental and so may not identify all risks of material misstatement; and (b) there are inherent limitations to ~~internal~~ controls, including management override.

\* See ASA 315, paragraph 52.

77. The following paragraph is inserted following existing paragraph A42:

In designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which a possible misstatement could occur, and if it were to occur, the effect of that misstatement would be most material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

78. Existing paragraph A45 is amended to read as follows:

The ~~nature~~ assessment of the risk ~~and or the nature of the~~ assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial report amount and obtaining the relevant audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

79. Existing paragraph A46 is amended to read as follows:

Because the assessment of the risk of material misstatement takes account of ~~internal~~ controls upon which the auditor intends to rely, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.

80. Existing paragraph A56 is amended to read as follows:

Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the following may influence whether to perform substantive procedures at an interim date:

- The control environment and other ~~relevant~~ controls.
- The availability at a later date of information necessary for the auditor's procedures.
- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the class of transactions or account balance and related assertions.
- The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

81. Existing paragraph A60 is amended to read as follows:

An audit of financial report is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgement about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.
- Analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognised risk of material misstatement.

In such circumstances, the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement ~~for all or some of~~ and the effect on the significant classes of transactions, account balances, or disclosures and ~~related their relevant~~ assertions. ASA 315 contains further guidance on revising the auditor's risk assessment.<sup>7</sup>

82. Existing footnote 7 to paragraph A60 is amended to read as follows:

See ASA 315, paragraph ~~543~~4.

83. Existing paragraph A62 is amended to read as follows:

The auditor's judgement as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial report.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of the available information.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control.

#### **Amendments to ED 03/18**

84. Existing paragraph 4 is amended (including the insertion of a footnote \*) to read as follows:

~~This Auditing Standard ASA 315 requires a separate assessment of inherent risk for identified risks of material misstatement at the assertion level.\* purposes of assessing the risks of material misstatement at the assertion level for accounting estimates. In the context of ASA 540, and d~~ Depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, and the interrelationship among them. As explained in ASA 200,<sup>5</sup> inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to ~~in this Auditing Standard~~ as the spectrum of inherent risk. (Ref: Para. A8–A9, A65–A66, Appendix 1)

\* See ASA 315, paragraph 48.

85. Existing footnote 5 to paragraph 4 is deleted.

86. Existing paragraph 5 is amended to read as follows:

This Auditing Standard refers to relevant requirements in ASA 315 and ASA 330, and provides related guidance, to emphasise the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:

- There are controls relevant to the audit, for which the auditor is required to evaluate their design and determine whether they have been implemented.
- To test the operating effectiveness of ~~relevant~~ controls.



87. Existing paragraph 6 is amended to read as follows:

~~This Auditing Standard ASA 315 also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level for accounting estimates. In assessing control risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not perform intended to tests the operating effectiveness of controls, or does not intend to rely on the operating effectiveness of controls, the auditor's assessment of the risk of material misstatement at the assertion level control risk cannot be reduced for the effective operation of controls with respect to the particular assertion.~~<sup>6</sup> (Ref: Para. A10)

88. Existing footnote 6 to paragraph 6 is deleted.

89. Existing paragraph 13 is amended (including sub-headings) to read as follows:

When obtaining an understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control, as required by ASA 315,<sup>8</sup> the auditor shall obtain an understanding of the following matters related to the entity's accounting estimates. The auditor's procedures to obtain the understanding shall be performed to the extent necessary to obtain sufficient appropriate audit evidence as the provide an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Ref: Para. A19-A22)

*Obtaining an Understanding of tThe Entity and Its Environment and the Applicable Financial Reporting Framework*

- (a) ...
- (b) The requirements of the applicable financial reporting framework related to accounting estimates (including the recognition criteria, measurement bases, and the related presentation and disclosure requirements); and how they apply in the context of the nature and circumstances of the entity and its environment, including how transactions and other events or conditions are subject to, or affected by, the inherent risk factors. (Ref: Para. A24-A25)

(c) ...

(d) ...

*Obtaining an Understanding of tThe Entity's System of Internal Control*

(e) ...

(f) ...

(g) ...

(h) The entity's information system as it relates to accounting estimates, including:

- (i) How information relating to accounting estimates and related disclosures for significant class of transactions, account balances or disclosures flow through the entity's information system ~~The classes of transactions, events and conditions, that are significant to the financial report and that give rise to the need for, or changes in, accounting estimates and related disclosures;~~ and (Ref: Para. A34-A35)

(ii) ...

(i) Controls ~~activities~~ relevant to the audit over management's process for making accounting estimates as described in paragraph 13(h)(ii). (Ref: Para. A50-A54)

- (j) How management reviews the outcome(s) of previous accounting estimates and responds to the results of that review.
90. Existing footnote 8 to paragraph 13 is amended to read as follows:  
See ASA 315, paragraphs ~~3, 5-6, 11-12, 15-17 and 20-21~~23-44.
91. Existing paragraph 16 is amended to read as follows:  
In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, including separately assessing inherent risk and controls risk at the assertion level, as required by ASA 315,<sup>9</sup> the auditor shall ~~separately assess inherent risk and control risk~~. The auditor shall take the following into account in identifying the risks of material misstatement and in assessing inherent risk:  
(Ref: Para. A64-A71)
- (a) ...
- (b) ...
92. Existing footnote 9 to paragraph 16 is amended to read as follows:  
See ASA 315, paragraphs ~~25 and 26~~45-52.
93. Existing paragraph 17 is amended (including the insertion of a footnote \*) to read as follows:  
The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 16 are, in the auditor's judgement, a significant risk.<sup>10</sup> If the auditor has determined that a significant risk exists, the auditor shall identify controls that obtain an understanding of the entity's controls, including control activities, relevant to address that risk,<sup>11</sup> and evaluate whether such controls have been designed effectively, and determine whether they have been implemented.\* (Ref: Para. A80)
- \* See ASA 315, paragraph 42.
94. Existing footnote 10 to paragraph 17 is amended to read as follows:  
See ASA 315, paragraph ~~49~~27.
95. Existing footnote 11 to paragraph 17 is amended to read as follows:  
See ASA 315, paragraph ~~39(b)~~29.
96. Existing paragraph 18 is amended to read as follows:  
As required by ASA 330,<sup>12</sup> the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level,<sup>13</sup> considering the reasons for the assessment given to those risks for each significant class of transactions, account balance, or disclosure. The auditor's further audit procedures shall include one or more of the following approaches:
- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);
- (b) Testing how management made the accounting estimate (see paragraphs 22–27); or
- (c) Developing an auditor's point estimate or range (see paragraphs 28–29).
- The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.<sup>14</sup> The auditor

shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A81-A84)

97. Existing footnote 12 to paragraph 18 is amended to read as follows:

See ASA 315, paragraphs 6-15 ~~and 18~~.

98. Existing paragraph 19 is amended to read as follows:

As required by ASA 330,<sup>15</sup> the auditor shall design and perform tests to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls, if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.<sup>17</sup> (Ref: Para. A85-A89)

99. Existing paragraph 39 is amended to read as follows:

The auditor shall include in the audit documentation:<sup>29</sup> (Ref: Para. A149-A152)

- (a) ~~Key elements~~ aspects of the auditor's understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control related to the entity's accounting estimates;
- (b) ...
- (c) ...
- (d) ...
- (e) ...

100. Existing paragraph A8 is amended (including the insertion of a footnote \*) to read as follows:

Inherent risk factors are characteristics of ~~conditions and events~~ and conditions that ~~may~~ affect the susceptibility of an assertion to misstatement, before consideration of controls.\* Appendix 1 further explains the nature of these inherent risk factors, and their inter-relationships, in the context of making accounting estimates and their presentation in the financial report.

\* See ASA 315, paragraph 16(f).

101. Existing paragraph A10 is amended to read as follows:

An important consideration for the auditor in assessing control risk at the assertion level is ~~the effectiveness of the design of the controls that whether the auditor intends to rely on operating effectiveness of controls based on the auditor's evaluation of the design effectiveness and the determination that controls have been implemented, and the extent to which the controls address the assessed inherent risks at the assertion level. The auditor's evaluation that controls are effectively designed and have been implemented supports an expectation about the operating effectiveness of the controls in determining whether to test them.~~

102. The sub-heading before existing paragraph A19 is amended to read as follows:

*Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework, and the Entity's System of Internal Control* (Ref: Para. 13)

103. Existing paragraph A19 is amended to read as follows:

Paragraphs ~~2311–4424~~ of ASA 315 require the auditor to obtain an understanding of certain matters about the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control. The requirements in paragraph 13 of this Auditing Standard relate more specifically to accounting estimates and build on the broader requirements in ASA 315.

104. Existing paragraph A20 is amended to read as follows:

The nature, timing, and extent of the auditor's procedures to obtain the understanding of the entity and its environment, ~~including the applicable financial reporting framework, and the entity's system of internal control~~, related to the entity's accounting estimates, may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances. For example, the entity may have few transactions or other events and conditions that give rise to the need for accounting estimates, the applicable financial reporting requirements may be simple to apply, and there may be no relevant regulatory factors. Further, the accounting estimates may not require significant judgements, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to, or affected by, estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree and there may be fewer controls relevant to the audit. If so, the auditor's risk identification and assessment procedures are likely to be less extensive and may be obtained primarily through enquiries of management with appropriate responsibilities for the financial report, ~~such as and~~ simple walk-throughs of management's process for making the accounting estimate (including when evaluating whether controls in that process are designed effectively and when determining whether the control has been implemented).

105. Existing paragraph A24 is amended to read as follows:

Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with a basis for discussion with management and, where applicable, those charged with governance about how management has applied ~~the these~~ requirements of the applicable financial reporting framework relevant to the accounting estimates, and about the auditor's determination of whether they have been applied appropriately. This understanding also may assist the auditor in communicating with those charged with governance when the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework, not to be the most appropriate in the circumstances of the entity.<sup>30</sup>

106. The sub-heading before existing paragraph A28 is amended to read as follows:

*The Entity's System of Internal Control* ~~Relevant to the Audit~~

107. Existing paragraph A28 is amended (including the insertion of a footnote \*) to read as follows:

In applying ASA 315,<sup>31</sup> the auditor's understanding of the nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates may be important to the auditor's required evaluation of as it relates to whether:

- Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; and

**Proposed Auditing Standard ASA 2018-1**  
***Amendments to Australian Auditing Standards***

---

- The strengths in those areas of the control environment elements collectively provide an appropriate foundation for the other components of the system of internal control and whether those other components are undermined by control deficiencies in the control environment.\*

\* See ASA 315, paragraph 38.

108. Existing footnote 31 to paragraph A28 is amended to read as follows:

See ASA 315, paragraph 27+4.

109. Existing paragraph A32 is amended to read as follows:

Understanding how the entity's risk assessment process identifies and addresses risks relating to accounting estimates may assist the auditor in considering changes in:

- ...;
- ...;
- The entity's information systems or IT environment; and
- ...

110. Existing paragraph A34 is amended to read as follows:

The significant classes of transactions, events and conditions within the scope of paragraph 13(h) are the same as the significant classes of transactions, events and conditions relating to accounting estimates and related disclosures that are subject to paragraphs 35+8(a) and (d) of ASA 315. In obtaining the understanding of the entity's information system as it relates to accounting estimates, the auditor may consider:

- ...
- ...

111. Existing paragraph A35 is amended to read as follows:

During the audit, the auditor may identify classes of transactions, events and conditions that give rise to the need for accounting estimates and related disclosures that management failed to identify. ASA 315 deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency are one or more control deficiencies in internal control with regard to the entity's risk assessment process.<sup>34</sup>

112. Existing footnote 34 to paragraph A35 is amended to read as follows:

See ASA 315, paragraph 43+7.

113. Existing paragraph A39 is amended to read as follows:

Management may design and implement specific controls around models used for making accounting estimates, whether management's own model or an external model. When the model itself has an increased level of complexity or subjectivity, such as an expected credit loss model or a fair value model using level 3 inputs, controls that address such complexity or subjectivity may be more likely to be identified as relevant to the audit because the assessments of inherent risk may be higher such that the auditor requires more persuasive audit evidence. The auditor's evaluation of the design of such controls and determination of whether such controls have been implemented contributes to the audit evidence related to higher assessed risks. When complexity in relation to models is present, controls over data

integrity are also more likely to be relevant to the audit. Factors that may be appropriate for the auditor to consider in obtaining an understanding of the model and of controls ~~activities~~ relevant to the audit include the following:

- ...
- ...

114. Existing paragraph A44 is amended to read as follows:

Matters that the auditor may consider in obtaining an understanding of how management selects the data on which the accounting estimates are based include:

- ...
- ...
- ...
- ...
- The complexity of IT applications or other aspects of the entity's IT environment ~~the information technology systems~~ used to obtain and process the data, including when this involves handling large volumes of data.
- ...

115. Existing sub-heading before paragraph A50 is amended to read as follows:

Controls ~~Activities~~ Relevant to the Audit Over Management's Process for Making Accounting Estimates (Ref: Para 13(i))

116. Existing paragraph A50 is amended to read as follows:

The auditor's judgement in identifying controls relevant to the audit, and therefore the need to evaluate the design of those controls and determine whether they have been implemented, relates to management's process described in paragraph 13(h)(ii). The auditor may not identify ~~relevant controls~~ relevant to the audit activities in relation to all ~~the elements~~ aspects of paragraph 13(h)(ii), depending on the degree to which complexity affects ~~associated with~~ the accounting estimate.

117. Existing paragraph A51 is amended to read as follows:

As part of ~~obtaining an understanding of~~ identifying the controls ~~activities~~ relevant to the audit, and evaluating their design and determine whether they have been implemented, the auditor may consider:

- ...
- ...
- ...
- The effectiveness of the design of the controls ~~activities~~. Generally, it may be more difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, than it is to design controls that address complexity. Controls that address subjectivity and estimation uncertainty may need to include more manual elements, which may be less reliable than automated controls as they can be more easily bypassed, ignored or overridden by management. The design effectiveness of

controls addressing complexity may vary depending on the reason for, and the nature of, the complexity. For example, it may be easier to design more effective controls related to a method that is routinely used or over the integrity of data.

118. Existing paragraph 52 is amended to read as follows:

When management makes extensive use of information technology in making an accounting estimate, controls relevant to the audit are likely to include general IT controls and application controls. Such controls may address risks related to:

- Whether the IT applications or other aspects of the IT environment ~~information technology system has~~ have the capability and is appropriately configured to process large volumes of data;
- Complex calculations in applying a method. When diverse IT applications systems are required to process complex transactions, regular reconciliations between the IT applications systems are made, in particular when the IT applications systems do not have automated interfaces or may be subject to manual intervention;
- ...
- ...
- ...
- ...
- ...

119. Existing paragraph A53 is amended to read as follows:

In some industries, such as banking or insurance, the term governance may be used to describe activities within the control environment, the entity's process to monitor the system of internal control monitoring of controls, and other components of the system of internal control, as described in ASA 315.<sup>36</sup>

120. Existing footnote 36 to paragraph A53 is amended to read as follows:

See ASA 315, paragraph A9977.

121. Existing paragraph A54 is amended to read as follows:

For entities with an internal audit function, its work may be particularly helpful to the auditor in obtaining an understanding of:

- ...
- The design and implementation of controls ~~activities~~ that address the risks related to the data, assumptions and models used to make the accounting estimates;
- ...
- ...

122. Existing paragraph A65 is amended (including the insertion of a footnote \*) to read as follows:

Paragraph A42 of ASA 200 states that the Auditing Standards ~~do not ordinarily refer to inherent risk and control risk separately~~ refer to the "risks of material misstatement" rather than to inherent risk and control risk separately. ~~However, this Auditing Standard ASA 315 requires a separate assessment of inherent risk and control risk~~ at the assertion level\* to

**Proposed Auditing Standard ASA 2018-1**  
**Amendments to Australian Auditing Standards**

---

provide a basis for designing and performing further audit procedures to respond to the risks of material misstatement, including significant risks, ~~at the assertion level for accounting estimates~~ in accordance with ASA 330.<sup>4†</sup>

\* See ASA 315, paragraphs 48 and 50.

123. Existing footnote 41 to paragraph A65 is deleted.

124. Existing paragraph A66 is amended to read as follows:

In identifying the risks of material misstatement and in assessing inherent risk in accordance with ASA 315, the auditor is required to take into account the degree to which the accounting estimate is subject to, or affected by, the inherent risk factors described in paragraph 16 of this Auditing Standard ~~estimation uncertainty, complexity, subjectivity, or other inherent risk factors~~. The auditor's consideration of the inherent risk factors may also provide information to be used in ~~determining~~:

- Assessing the likelihood and magnitude of material misstatement (i.e., where inherent risk is assessed on the spectrum of inherent risk); and
- Determining ~~t~~the reasons for the assessment given to the risks of material misstatement at the assertion level, and that the auditor's further audit procedures in accordance with paragraph 18 are responsive to those reasons.

The interrelationships between the inherent risk factors are further explained in Appendix 1.

125. Existing paragraph A68 is amended to read as follows:

The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk ~~at close to~~ the lower end of the spectrum of inherent risk.

126. Existing paragraph A70 is amended to read as follows:

Events occurring after the date of the financial report may provide additional information relevant to the auditor's assessment of the risks of material misstatement at the assertion level. For example, the outcome of an accounting estimate may become known during the audit. In such cases, the auditor may assess or revise the assessment of the risks of material misstatement at the assertion level,<sup>42</sup> regardless of the degree to which the accounting estimate was subject to, or affected by, estimation uncertainty, complexity, subjectivity or other inherent risk factors. Events occurring after the date of the financial report also may influence the auditor's selection of the approach to testing the accounting estimate in accordance with paragraph 18. For example, for a simple bonus accrual that is based on a straightforward percentage of compensation for selected employees, the auditor may conclude that there is relatively little complexity or subjectivity in making the accounting estimate, and therefore may assess inherent risk at the assertion level ~~at close to~~ the lower end of the spectrum of inherent risk. The payment of the bonuses subsequent to period end may provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.

127. Existing footnote 42 to paragraph A70 is amended to read as follows:

See ASA 315, paragraph 533~~4~~.

128. Existing paragraph A80 is amended to read as follows:

The auditor's assessment of inherent risk, which takes into account the degree to which an accounting estimate is subject to, or affected by, estimation uncertainty, complexity,



subjectivity or other inherent risk factors, assists the auditor in determining whether any of the risks of material misstatement identified and assessed are a significant risk.

129. The sub-heading before existing paragraph A85 is amended to read as follows:

*When the Auditor Intends to Rely on the Operating Effectiveness of ~~Relevant~~ Controls* (Ref: Para: 19)

130. Existing paragraph A85 is amended (including the insertion of a footnote \*) to read as follows:

Testing the operating effectiveness of ~~relevant~~ controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks.\* This may be the case when the accounting estimate is subject to, or affected by, a high degree of complexity. When the accounting estimate is affected by a high degree of subjectivity, and therefore requires significant judgement by management, inherent limitations in the effectiveness of the design of controls may lead the auditor to focus more on substantive procedures than on testing the operating effectiveness of controls.

\* See ASA 315, paragraph 16(k).

131. Existing paragraph A86 is amended to read as follows:

In determining the nature, timing and extent of testing of the operating effectiveness of controls relating to accounting estimates, the auditor may consider factors such as:

- The nature, frequency and volume of transactions;
- The effectiveness of the design of the controls, including whether controls are appropriately designed to ~~respond to~~ address the assessed inherent related risks of material misstatement, and the strength of the control environment, including governance;
- The importance of particular controls to the overall control objectives and processes in place at the entity, including the sophistication of the information system to support transactions;
- The entity's process to monitoring the system of internal controls and identified deficiencies in the entity's system of internal control;
- The nature of the risks the controls are intended to address, for example, controls related to the exercise of judgement compared with controls over supporting data;
- The competency of those involved in the controls ~~activities~~;
- The frequency of performance of the controls ~~activities~~; and
- The evidence of performance of controls ~~activities~~.

132. Existing paragraph A88 is amended to read as follows:

Circumstances when risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level may exist include:

- ...
- Information supporting one or more relevant assertions is electronically initiated, recorded, processed, or reported. This is likely to be the case when there is a high volume of transactions or data, or a complex model is used, requiring the extensive use of information technology to ensure the accuracy and completeness of the information. A complex expected credit loss provision may be required for a financial

institution or utility entity. For example, in the case of a utility entity, the data used in developing the expected credit loss provision may comprise many small balances resulting from a high volume of transactions. In these circumstances, the auditor may conclude that sufficient appropriate audit evidence cannot be obtained without testing controls around the model used to develop the expected credit loss provision.

In such cases, the sufficiency and appropriateness of the audit evidence may depend on the operating effectiveness of controls over the accuracy and completeness of the information.

133. Existing paragraph A101 is amended to read as follows:

Maintaining the integrity of significant assumptions and the data in applying the method refers to the maintenance of the accuracy and completeness of the data and assumptions through all stages of information processing. A failure to maintain such integrity may result in corruption of the data and assumptions and may give rise to misstatements. In this regard, relevant considerations for the auditor may include whether the data and assumptions are subject to all changes intended by management, and not subject to any unintended changes, during activities such as input, storage, retrieval, transmission or processing. Under these circumstances, the auditor may also determine that the related general IT controls are relevant to the audit.

134. Existing paragraph A104 is amended to read as follows:

Through the knowledge obtained in performing the audit, the auditor may become aware of or may have obtained an understanding of assumptions used in other areas of the entity's business. Such matters may include, for example, business prospects, assumptions in strategy documents and future cash flows. Also, if the engagement partner has performed other engagements for the entity, ASA 315<sup>49</sup> requires the engagement partner to consider whether information obtained from those other engagements is relevant to identifying and assessing risks of material misstatement. This information may also be useful to consider in addressing whether significant assumptions are consistent with each other and with those used in other accounting estimates.

135. Existing footnote 49 to paragraph A104 is amended to read as follows:

See ASA 315, paragraph 208.

136. Existing paragraph A149 is amended to read as follows:

ASA 315<sup>65</sup> and ASA 330<sup>66</sup> provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in ASA 230.<sup>67</sup> In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements aspects of the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, related to accounting estimates. In addition, the auditor's judgements about the assessed risks of material misstatement related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

137. Existing footnote 65 to paragraph A149 is amended to read as follows:

See ASA 315, paragraphs 5432 and A244A152-A247A155.

138. The following paragraph is inserted the level above paragraph 1 of Appendix 1:

ASA 315 describes the inherent risk factors and how they are used in identifying and assessing the risks of material misstatement. The following sets out considerations relating to inherent risk factors in the context of accounting estimates.

**OTHER CONFORMING AND CONSEQUENTIAL AMENDMENTS**

Conforming and consequential amendments to Australian Auditing Standards, other than ASA 200, ASA 240 and ASA 330 have been presented in this Appendix. These changes, in the view of the AUASB, are generally straight forward as they are largely changes to definitions so have been presented in table format for practicality.

Three tables are presented within this appendix. Table 1 shows all other conforming and consequential amendments. Where the other conforming and consequential amendments presented within Table 1 include changes in addition to definition changes, further information is shown within Table 2 or Table 3.

<b>Table 1</b>		
<b>Extant Term in the ASAs</b>	<b>Change Made in Proposed ASA 315</b>	<b>Relevant Paragraph(s) Where Change is Proposed</b>
<b>Changes to Names of Components of the System of Internal Control</b>		
Monitoring of controls (extant ASA 315, para's 22–24)	The entity's process to monitor the system of internal control (ED 01/18, para's 32–34)	<u>ASA 210</u> : <sup>1</sup> Para. A18 (refer to <b>Table 2</b> ) <u>ASA 402</u> : <sup>2</sup> Para. A33 – last bullet Para. A34
The information system, including the related business processes, relevant to financial reporting, and communication (extant ASA 315, para. 18)	The information system, and communication (ED 01/18, para. 35)	<u>ASA 210</u> : Para. A18 (refer to <b>Table 2</b> )
<b>Other Changes</b>		
Monitoring of controls <sup>3</sup> (extant ASA 315, para's 22–24)	Controls within the entity's process to monitor the system of internal control (ED 01/18, para's 32–34)	<u>ASA 402</u> : A39 – first bullet <u>ASA 600</u> : <sup>4</sup> Appendix 2, para. 1, 8th bullet (refer to <b>Table 2</b> )
Control activities (extant ASA 315, para. 20)	Controls (ED 01/18, para. 38)	<u>ASA 250</u> : <sup>5</sup> Para. A23 <u>ASA 265</u> : Para A3 (2nd and 3rd sentences) (refer to <b>Table 2</b> ) <u>ASA 500</u> : Para. A17 <u>ASA 501</u> : <sup>6</sup> Para. A4 <u>ASA 550</u> : <sup>7</sup> Para. A20 <u>ASA 600</u> : Appendix 2, para. 1 (7th bullet)

<sup>1</sup> ASA 210 Agreeing the Terms of Audit Engagements.

<sup>2</sup> ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation.

<sup>3</sup> Where this is used to describe what the entity does, as opposed to the name of the component

<sup>4</sup> ASA 600 Special Considerations – Audits of a Group Financial Report.

<sup>5</sup> ASA 250 Consideration of laws and Regulations in an Audit of a Financial Report

<sup>6</sup> ASA 501 Audit Evidence – Specific Considerations for Inventory and Segment Information

<sup>7</sup> ASA 550 Related Parties

**Proposed Auditing Standard ASA 2018-1**  
**Amendments to Australian Auditing Standards**

<b>Table 1</b>		
<b>Extant Term in the ASAs</b>	<b>Change Made in Proposed ASA 315</b>	<b>Relevant Paragraph(s) Where Change is Proposed</b>
		Appendix 5, Matters that are relevant to the conduct of the work of the component auditor (1st bullet) <u>ASA 610</u> : <sup>8</sup> Para. A3 Para. A10
Control activities <sup>9</sup> (extant ASA 315, para. 20)	Controls in the control activities component (ED 01/18, para. 38)	<u>ASA 265</u> : Para. A3 (first sentence) (refer to <b>Table 2</b> )
Relevant control activities (extant ASA 315, para. 20)	Controls relevant to the audit (ED 01/18, para. 38)	<u>ASA 300</u> : <sup>10</sup> Para. A21
The auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (extant ASA 315, para. 9)	The auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (ED 01/18, para. 21)	<u>ASA 500</u> : Para. A1
Internal control (extant ASA 315, para. 4(c))	The system of internal control (ED 01/18, para. 16(l))	<u>ASA 210</u> : Para. A18 (refer to <b>Table 2</b> ) <u>ASA 265</u> : Para. 1 (second sentence) Para. 2 (first sentence) <u>ASA 620</u> : <sup>11</sup> Para. A4 (first bullet)
Internal control relevant to the audit (extant ASA 315, para. 12)	Controls relevant to the audit (ED 01/18, para. 26)	<u>ASA 402</u> : Para 14(b)
Internal control relevant to the audit. (extant ASA 315, para. 12)	System of internal control relevant to financial reporting (ED 01/18, para. 25)	<u>ASA 260</u> : <sup>12</sup> Para A13, 3rd bullet <u>ASA 265</u> : Para 2 (first sentence) <u>ASA 402</u> : Para. 1 Para. 7(a) Para. 10 (refer to <b>Table 2</b> )
Extant elements of the auditor’s understanding of the ‘entity and its environment’ Extant ASA 315, para. 11 (refer to <b>Table 3</b> )	Revised elements of the auditor’s understanding of the ‘entity and its environment’ (ED 01/18, para. 23 (refer to <b>Table 3</b> ))	All the changes in this section are presented in <b>Table 3</b> <u>ASA 550</u> : Para. A12 <u>ASA 600</u> : Para. A23 <u>ASA 720</u> : <sup>13</sup> Para. A31

<sup>8</sup> ASA 610 Using the Work of Internal Auditors

<sup>9</sup> The proposed change in respect of this reference to ‘control activities’ is slightly different when compared to the proposed change in the previous row. This is due to the particular construction of the first sentence of ASA 265 paragraph A3; however, the meaning of ‘controls’ remains the same. Also refer to Table 2.

<sup>10</sup> ASA 300 Planning an Audit of a Financial Report

<sup>11</sup> ASA 620 Using the Work of an Auditor’s Expert

<sup>12</sup> ASA 260 Communication with Those Charged with Governance

<sup>13</sup> ASA 720 The Auditor’s Responsibilities Relating to Other Information

**Proposed Auditing Standard ASA 2018-1**  
**Amendments to Australian Auditing Standards**

<b>Table 1</b>		
<b>Extant Term in the ASAs</b>	<b>Change Made in Proposed ASA 315</b>	<b>Relevant Paragraph(s) Where Change is Proposed</b>
Understanding the entity and its environment <sup>14</sup> (extant ASA 315, para. 11)	Understanding the entity and its environment, the applicable financial reporting framework and the system of internal control (ED 01/18, para. 17)	<u>ASA 230:</u> Para. A17 (refer <b>Table 2</b> ) <u>ASA 600:</u> Para. 17 <u>ASA 620:</u> Para. A4 (first bullet) <u>ASA 720 (Revised):</u> Para. A31 (refer <b>Table 3</b> )
Require special audit consideration (in context of significant risks) (extant ASA 315, para. 4(e))	<i>Change as appropriate or delete</i> (ED 01/18, para. 16(k) and A10)	All the changes in this section are presented in <b>Table 2</b> <u>ASA 260:</u> Para. A12 <u>ASA 550:</u> Para. A28 <u>ASA 600:</u> Para. A6 <u>ASA 610:</u> Para. A21 <u>ASA 701:</u> Para. A20
Relevant controls (extant ASA 315, para 13–heading)	Controls relevant to the audit (ED 01/18, para. 26)	<u>ASA 402:</u> Para. 10 (refer <b>Table 2</b> ) Para. 12 (c) and (d) Para. A19 Para. A22 (hanging paragraph) Para. A29 Para. A30 (1st and 2nd sentences) Para. A33
Relevant controls (extant ASA 315, para 13–heading)	<i>Change as appropriate</i>	<u>ASA 530:</u> <sup>15</sup> Appendix 2, factor 1 (refer <b>Table 2</b> ) <u>ASA 550:</u> Para. A34 – last sentence (refer <b>Table 2</b> )
Identifying and assessing the risks of material misstatement through understanding the entity and its environment (name of standard)	Identifying and assessing the risks of material misstatement	<u>ASA 210:</u> Footnote 14 <u>ASA 220:</u> <sup>16</sup> Footnote 13 <u>ASA 230:</u> Footnote 5 Appendix <u>ASA 250:</u> <sup>17</sup> Footnote 4 <u>ASA 260 (Revised):</u> Footnote 4 <u>ASA 265:</u> Footnote 1

<sup>14</sup> When reference is made to the auditor’s understanding of the entity and its environment, and in the specific context used, are intended to be inclusive of the auditor’s understanding of internal control

<sup>15</sup> ASA 530 Audit Sampling

<sup>16</sup> ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information

<sup>17</sup> ASA 250 Consideration of Laws and Regulations in an Audit of Financial Statements

**Proposed Auditing Standard ASA 2018-1**  
**Amendments to Australian Auditing Standards**

<b>Table 1</b>		
<b>Extant Term in the ASAs</b>	<b>Change Made in Proposed ASA 315</b>	<b>Relevant Paragraph(s) Where Change is Proposed</b>
		<u>ASA 300:</u> Footnote 4 <u>ASA 320:</u> <sup>18</sup> Footnote 3 <u>ASA 402:</u> Footnote 1 <u>ASA 500:</u> Footnote 1
Identifying and assessing the risks of material misstatement through understanding the entity and its environment (name of standard)	Identifying and assessing the risks of material misstatement	<u>ASA 505:</u> <sup>19</sup> Footnote 14 <u>ASA 510:</u> <sup>20</sup> Footnote 4 <u>ASA 520:</u> <sup>21</sup> Footnote 1 <u>ASA 550:</u> Footnote 1 <u>ASA 570:</u> <sup>22</sup> Footnote 3 <u>ASA 600:</u> Footnote 7 <u>ASA 610:</u> Footnote 1 <u>ASA 700:</u> Footnote 35 <u>ASA 701:</u> Footnote 5 <u>ASA 720:</u> Footnote 11 <u>ASA 800:</u> Footnote 5
Relevant assertion (this is now a defined term)	<i>As appropriate</i>	Refer to <b>Table 2:</b> ASA 265 para. A8
<i>Aspects of the entity's</i> information system (ASA 315, para. 18)	Alignment to the requirements to understanding the information system. (ED 01/18, para. 35)	<u>ASA 402:</u> Para. 3 (refer to <b>Table 2</b> )

<sup>18</sup> ASA 320 Materiality in Planning and Performing an Audit

<sup>19</sup> ASA 505 External Confirmations

<sup>20</sup> ASA 510 Initial Audit Engagements—Opening Balances

<sup>21</sup> ASA 520 Analytical Procedures

<sup>22</sup> ASA 570 *Going Concern*

<b>Table 2</b>	
<b>Description of components of the system of internal control</b>	
1.	<p><b>ASA 210, para. A18</b></p> <p>It is for management to determine what internal control is necessary to enable the preparation of the financial report. The term “internal control” encompasses a wide range of activities within components of the system of internal control that may be described as the control environment; the entity’s risk assessment process; <u>the entity’s process to monitor the system of internal control</u>, the information system, <del>including the related business processes relevant to financial reporting</del>, and communication; <del>and control activities; and monitoring of controls</del>. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component.<sup>15</sup> An entity’s internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.</p> <p><b>ASA 210, footnote 15</b></p> <p><u>See ASA 315, paragraph A9959 and Appendix 34</u></p>
<b>Controls within the entity’s process to monitor the system of internal control</b>	
2.	<p><b>ASA 600, Appendix 2, paragraph 1 (8th bullet)</b></p> <p><i>Group-Wide Controls</i></p> <p>1. Group-wide controls may include a combination of the following:</p> <ul style="list-style-type: none"> <li>• Regular meetings between group and component management to discuss business developments and to review performance.</li> <li>• ...</li> <li>• <u>Controls within the group’s process to monitor</u> <del>Monitoring the system of internal</del> controls, including activities of the internal audit function and self-assessment programs.</li> </ul>
<b>Control activities</b>	
3.	<p><b>ASA 265, para. A3</b></p> <p>While the concepts underlying <u>controls in the control activities component</u> in smaller entities are likely to be similar to those in larger entities, the formality with which they operate will vary. Further, smaller entities may find that certain types of controls <del>activities</del> are not necessary because of controls applied by management. For example, management’s sole authority for granting credit to customers and approving significant purchases can provide effective control over important account balances and transactions, lessening or removing the need for more detailed controls <del>activities</del>.</p>

<b>Table 2</b>	
<b>'Controls relevant to the audit', and the 'system of internal control'</b>	
4.	<p><b>ASA 402, para. 10</b></p> <p>When obtaining an understanding of <u>the system of</u> internal control relevant to <del>the audit</del> <u>financial reporting</u> in accordance with ASA 315,<sup>4</sup> the user auditor shall evaluate the design and implementation of <del>relevant</del> <u>controls relevant to the audit</u> at the user entity that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation. (Ref: Para. A12–A14)</p> <p><b>ASA 402, footnote 4</b></p> <p>See ASA 315, paragraph <del>2512</del>.</p>
<b>Describing aspects of the entity and its environment in extant ASA 315:</b>	
5.	<p><b>ASA 230, para. A17</b></p> <p>When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its <u>environment, the applicable financial reporting framework, and the entity's system of</u> internal control, the overall audit strategy and audit plan, materiality determined in accordance with ASA 320,<sup>9</sup> assessed risks, significant matters noted during the audit, and conclusions reached.</p>
<b>References to risks that 'require special audit consideration'</b>	
6.	<p><b>ASA 260, para. A12</b></p> <p>Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they <u>were determined to be significant risks</u> <del>require special audit consideration</del>. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.</p>
7.	<p><b>ASA 550, para. A28</b></p> <p><i>Sharing Related Party Information with the Engagement Team</i> (Ref: Para. 17)</p> <p>Relevant related party information that may be shared among the engagement team members includes, for example:</p> <ul style="list-style-type: none"> <li>• The identity of the entity's related parties.</li> <li>• The nature of the related party relationships and transactions.</li> <li>• Significant or complex related party relationships or transactions that may <u>be determined to be significant risks</u> <del>require special audit consideration</del>, in particular transactions in which management or those charged with governance are financially involved.</li> </ul>



**Table 2**

**8. ASA 600, para. A6**

The group engagement team may also identify a component as likely to include significant risks of material misstatement of the group financial report due to its specific nature or circumstances. (that is, risks that require special audit consideration<sup>14</sup>). For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.

**ASA 600, footnote 14**

See ASA 315, paragraphs 27–29.

**9. ASA 610, para. A21**

As explained in ASA 315,<sup>22</sup> significant risks ~~require special audit consideration~~ are risks assessed close to the upper end of the spectrum of inherent risk and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgement. In addition, where the risks of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.

**ASA 610, footnote 22**

See ASA 315 (as amended), paragraph 4(k)(e).

**10. ASA 701, para. A20**

ASA 315 defines a significant risk as an identified ~~and assessed~~ risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which one or a combination of the inherent risk factors affect the likelihood of a misstatement occurring or the magnitude of potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirement of other ASAs,<sup>23</sup> that, in the auditor's judgement, requires special audit consideration. Areas of significant management judgement and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

**ASA 701 footnote \***

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph 27 and ISA 550 *Related Parties*, paragraph 18.

**Extant references to relevant controls**

**11. ASA 530**

**Appendix 2, factor 1**

An increase in the extent to which the auditor's risk assessment takes into account ~~relevant~~ controls that address the risk of material misstatement.

**Table 2**

**12. ASA 550, para. A34**

Depending upon the results of the auditor’s risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity’s controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ASA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls,<sup>26</sup> the auditor is required to test the entity’s controls over the completeness and accuracy of the recording of the related party relationships and transactions.

**Extant references to ‘relevant assertion’**

**13. ASA 265, para. A8**

A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency. However, a combination of deficiencies affecting the same account balance or disclosure, ~~relevant~~ assertion, or component of internal control may increase the risks of misstatement to such an extent as to give rise to a significant deficiency.

**Alignment to the requirements to understanding the information system**

**14. ASA 402, para. 3**

Services provided by a service organisation are relevant to the audit of a user entity’s financial report when those services, and the controls over them, are part of the user entity’s information system, including related business processes, relevant to financial reporting. Although most controls at the service organisation are likely to relate to financial reporting, there may be other controls that may also be relevant to the audit, such as controls over the safeguarding of assets. A service organisation’s services are part of a user entity’s information system, including related business processes, relevant to financial reporting if these services affect any of the following:

- (a) How information relating to significant classes of transactions, account balances and disclosures flows through the user entity’s information system, whether manually or using IT, and whether obtained from within or outside the general ledger and subsidiary ledgers. The classes of transactions in the user entity’s operations that are significant to the user entity’s financial report; This includes when the service organisation’s services affect how:
  - (i) ~~(b) The procedures, within both information technology (IT) and manual systems, by which the user entity’s transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial report; Transactions of the user entity are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial report; and~~
  - (ii) Information about events and conditions, other than transactions, is captured, processed and disclosed by the user entity in the financial report.

**Table 2**

- (b) ~~(e) The related accounting records, either in electronic or manual form, supporting information and specific accounts in the user entity's financial report and other supporting records relating to the flows of information in paragraph 3(a) that are used to initiate, record, process and report the user entity's transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;~~
- (d) ~~How the user entity's information system captures events and conditions, other than transactions, that are significant to the financial report;~~
- (c) ~~(e) The financial reporting process used to prepare the user entity's financial report from the records described in paragraph 3(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures accounting estimates and disclosures; and~~
- (d) The entity's IT environment relevant to (a) to (c) above.
- (f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

**Table 3**

**Describing aspects of the entity and its environment in extant ASA 315** (*changes to the description of the entity and its environment are described below*):

**1. ASA 550, para. A12**

However, where the framework does not establish related party requirements, the entity may not have such information systems in place. Under such circumstances, it is possible that management may not be aware of the existence of all related parties. Nevertheless, the requirement to make the enquiries specified by paragraph 13 still applies because management may be aware of parties that meet the related party definition set out in this ASA. In such a case, however, the auditor's enquiries regarding the identity of the entity's related parties are likely to form part of the auditor's risk assessment procedures and related activities performed in accordance with ASA 315 to obtain information regarding the entity's organisational structure, ownership, governance and business model.<sup>17</sup>

- The entity's ownership and governance structures;
- The types of investments that the entity is making and plans to make; and
- The way the entity is structured and how it is financed.

In the particular case of common control relationships, as management is more likely to be aware of such relationships if they have economic significance to the entity, the auditor's enquiries are likely to be more effective if they are focused on whether parties with which the entity engages in significant transactions, or shares resources to a significant degree, are related parties.

**2. ASA 600, para. A23**

*Matters about Which the Group Engagement Team Obtains an Understanding* (Ref: Para. 17)

ASA 315 contains guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, including:

- The entity's organisational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;
- Relevant industry, regulatory, and other external factors that affect the entity;
- The relevant measurement used, internally and externally, to assess and review of the entity's financial performance; and
- The ~~including the~~ applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and<sup>17</sup>

Appendix 2 of this ASA contains guidance on matters specific to a group including the consolidation process.

**ASA 600, footnote 17**

See ASA 315, paragraphs ~~A17-A41~~ A49-A88.

**Table 3**

**3. ASA 720, para. A31**

The auditor’s knowledge obtained in the audit includes the auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and including the entity’s system of internal control, obtained in accordance with ASA 315.<sup>11</sup> ASA 315 sets out the auditor’s required understanding, which includes such matters as obtaining an understanding of:

- (a) The entity’s organisational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;
- (b) ~~The~~ relevant industry, regulatory, and other external factors;  
 The nature of the entity;  
 The entity’s selection and application of accounting policies;  
 The entity’s objectives and strategies;
- (c) The relevant measures used, internally and externally, to assess measurement and review of the entity’s financial performance; ~~and~~
- (d) The applicable financial reporting framework; and
- (e) The entity’s system of internal control.

**ASA 720, footnote 11**

See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs ~~2311–2512~~.

**Proposed amendments to the auditor’s required understanding of ‘the entity and its environment’**

The following describes extant elements of the auditor’s understanding of the ‘entity and its environment’ – ASA 315 paragraph 11:

*The Entity and Its Environment*

The auditor shall obtain an understanding of the following:

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30)
- (b) The nature of the entity, including:
  - (i) its operations;
  - (ii) its ownership and governance structures;
  - (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
  - (iv) the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial report. (Ref: Para. A31–A35)

**Table 3**

- (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: Para. A36)
- (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37-A43)
- (e) The measurement and review of the entity's financial performance. (Ref: Para. A44-A49)

The following describes the revised elements of the auditor's understanding of the 'entity and environment' – ED 01/18 paragraph 23:

The auditor shall perform risk assessment procedures to obtain an understanding of the entity and its environment and the applicable financial reporting framework. In doing so, the auditor shall obtain an understanding of the following matters to provide an appropriate basis for understanding the classes of transactions, account balances and disclosures to be expected in the entity's financial report:

- (a) The entity and its environment, including:
  - (i) The entity's organisational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT; (Ref: Para A49-A63)
  - (ii) Relevant industry, regulatory and other external factors; and (Ref: Para. A64-A69)
  - (iii) The relevant measures used, internally and externally, to assess the entity's financial performance. (Ref: Para. A70-A78)
- (b) The applicable financial reporting framework, including: (Ref: Para.A79-A82)
  - (i) How it applies in the context of the nature and circumstances of the entity and its environment, including how events or conditions are subject to, or affected by, the inherent risk factors; and (Ref: Para.A83-A88)
  - (ii) The entity's accounting policies and any changes thereto, including the reasons for any changes to the entity's accounting policies.

**Changes will also be made to the AUASB Glossary as needed.**

**CONSEQUENTIAL AMENDMENTS TO ASA 200 AS A RESULT OF  
CHANGES PROPOSED BY ED 03/18 PROPOSED ASA 540 AND ED 02/18  
PROPOSED ASA 315**

Consequential amendments have been proposed to paragraph A42 of ASA 200<sup>23</sup> in ED 04/18<sup>24</sup> as well as through this Exposure Draft (ED 02/18). To assist stakeholders with understanding the effect of the changes of both ED 04/18 and ED 02/18, the amendments have been stepped out below from the extant ASA 200.

1. Existing paragraph A42 of ASA 200 is amended by ED 04/18 (including the insertion of new footnotes, \* and ^) to read as follows:

The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The Australian Auditing Standards do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, ASA 540\* requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, for accounting estimates at the assertion level in accordance with ASA 330.^ In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

\* See ASA 540 *Auditing Accounting Estimates and Disclosures*, paragraph 15.

^ See ASA 330, paragraph 7(b).

**The proposed effective date of the amendments in ED 04/18 is 15 December 2019.**

2. The above amended paragraph and footnotes are further amended by changes to paragraph A42 of ASA 200 in ED 02/18, proposed ASA 315, to read as follows:

The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. In most cases, tThe Australian Auditing Standards do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” rather than to inherent risk and control risk separately. However, ASA 540315\* requires a separate assessment of inherent risk and control risk at the assertion level to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, for accounting estimates at the assertion level in accordance with ASA 330.^ In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates, the auditor may make separate or combined

---

<sup>23</sup> ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*

<sup>24</sup> ED 04/18 *Proposed Auditing Standard ASA 2018-2 Amendments to Australian Auditing Standards*

**Proposed Auditing Standard ASA 2018-1**  
*Amendments to Australian Auditing Standards*

---

assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations.

\* See ASA 540~~315~~ *Auditing Accounting Estimates and Disclosures Identifying and Assessing the Risks of Material Misstatement*, paragraph 15.

△ See ASA 300, paragraph 7(b).

**The proposed effective date of the amendments in ED 02/18 is 15 December 2020.**