EXPOSURE DRAFT

ED 03/15
(Octoberr 2015)

Proposed Auditing Standard ASA 2015-3 *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 forwarded so as to arrive by no later than 23 November 2015. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED 03/15

The AUASB issues exposure draft ED 03/15 of proposed Auditing Standard ASA 2015-3 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee 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 *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Proposals

This proposed Auditing Standard makes amendments to the following Auditing Standards:

ASA 200	*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (27 October 2009)
ASA 210	*Agreeing the Terms of Audit Engagements* (27 October 2009)
ASA 240	*The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (27 October 2009)
ASA 260	*Communication with Those Charged with Governance* (1 September 2015)
ASA 300	*Planning an Audit of a Financial Report* (27 October 2009)
ASA 315	*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (27 October 2009)
ASA 320	*Materiality in Planning and Performing an Audit* (27 October 2009)
ASA 330	*The Auditor's Responses to Assessed Risks* (27 October 2009)
ASA 450	*Evaluation of Misstatements Identified during the Audit* (27 October 2009)
ASA 700	*Forming an Opinion and Reporting on a Financial Report* (1 September 2015)
ASA 540	*Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (27 October 2009)
ASA 580	*Written Representations* (27 October 2009)
ASA 705	*Modifications to the Opinion in the Independent Auditor's Report* (1 September 2015)
ASA 800	*Special Considerations-Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (27 October 2009)
ASA 805	*Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (27 October 2009)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to numerous International Standards on Auditing (ISAs) resulting from enhancements aimed at addressing disclosures in the audit of the financial statements, as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), 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 and to make appropriate consequential amendments to the Australian Auditing Standards.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods ending on or after 15 December 2016.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2015-3 *Amendments to Australian Auditing Standards* by no later than 23 November 2015. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2015-3 *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. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of existing Auditing Standards related to addressing disclosures in the audits of financial reports. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

AUDITING STANDARD ASA 2015-3

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:

   - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and

   - an audit of a financial report, or a complete set of financial statements, for any other purpose.

2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments to the Australian Auditing Standards arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to numerous International Standards on Auditing (ISAs) resulting from enhancements aimed at addressing disclosures in the audit of the financial statements, as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met.

5. This Auditing Standard uses underlining, striking out and other typographical material to identify the amendments to Auditing Standards, in order to make the amendments more understandable. Amendments made to text contained in footnotes are shown within the footnotes and underlining and striking out are also used to identify amendments. However, the amendments made by this Auditing Standard do not include that underlining, striking out or other typographical material.

Objective

6. 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* (27 October 2009)

   (b) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009)

   (c) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (27 October 2009)

   (d) ASA 260 *Communication with Those Charged with Governance* (1 September 2015)

   (e) ASA 300 *Planning an Audit of a Financial Report* (27 October 2009)

(f) ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (27 October 2009)

(g) ASA 320 *Materiality in Planning and Performing an Audit* (27 October 2009)

(h) ASA 330 *The Auditor's Responses to Assessed Risks* (27 October 2009)

(i) ASA 450 *Evaluation of Misstatements Identified during the Audit* (27 October 2009)

(j) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (1 September 2015)

(k) ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (27 October 2009)

(l) ASA 580 *Written Representations* (27 October 2009)

(m) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (1 September 2015)

(n) ASA 800 *Special Considerations-Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (27 October 2009)

(o) ASA 805 *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (27 October 2009)

Definition

7. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASA 200

8. Paragraph 13(f) is amended to read as follows:

~~[Deleted by the AUASB. Refer Aus 13.2]~~

9. Paragraph Aus 13.2 is renamed as paragraph 13(f), and amended to read as follows:

Financial report means a structured representation of historical financial information, including ~~related~~ ~~notes~~ <u>disclosures</u>, intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. <u>The term “financial report” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of</u> a financial statement, or in the notes, or incorporated therein by cross-reference. (Ref: Para. A1–A2)

10. As a result of the change made in paragraph 9 of this Auditing Standard, subsequent “Aus” paragraph references within paragraph 13 of the Auditing Standard are re-numbered and references to these paragraphs are updated accordingly.

11. Paragraph Aus 13.4 is deleted as follows:

~~Financial Report means, for purposes other than the *Corporations Act 2001*, a complete set of financial statements, including the related notes disclosures, and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the presentation, structure form and content of the financial report, and what constitutes a financial report.~~

12. A new heading titled "Definitions" is inserted under the existing title "Application and Other Explanatory Material."

13. A new sub-heading, titled "Financial report (Ref: Para. 13(f))" is inserted under the new "Definitions" heading referred to in paragraph 10 of this Auditing Standard.

14. Paragraph Aus 22.1 is deleted as follows:

    ~~Application of the requirement(s) would relate to classes of transactions, account balances or disclosures that the auditor has determined are immaterial.~~

15. New paragraph A1 is inserted after the sub-heading referred to in paragraph 11 of this Auditing Standard as follows:

    <u>Some financial reporting frameworks may refer to an entity's economic resources or obligations in other terms. For example, these may be referred to as the entity's assets and liabilities, and the residual difference between them may be referred to as equity or equity interests</u>.

16. As a result of the change made in paragraph 15 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

17. New paragraph A2 is inserted after new paragraph A1 as follows:

    <u>Explanatory or descriptive information required to be included in the financial report by the applicable financial reporting framework may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. "Incorporated therein by cross-reference" means cross-referenced from the financial report to the other document, but not from the other document to the financial report. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial report</u>.

18. As a result of the change made in paragraph 17 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

Amendments to ASA 210

19. Paragraph A11 is amended to read as follows:

    …

    However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial report or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit <u>(including information obtained from outside of the general and subsidiary ledgers)</u> in so far as management is able to provide or procure it.

    …

20. Paragraph A23 is amended to read as follows:

… In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

…

- The expectation that management will provide written representations (see also paragraph A13).
- The expectation that management will provide access to all information of which management is aware that is relevant to the preparation of the financial report, including an expectation that management will provide access to information relevant to disclosures.
- The agreement of management to make available to the auditor the draft financial report ~~and any other accompanying other information~~, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information, if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.

…

21. The following footnote, referenced to paragraph 17 of this Auditing Standard (second bullet point) is inserted as follows:

[1] As defined in ASA 720, *The Auditor's Responsibilities Relating to Other Information*.

22. Appendix 1 is amended to read as follows:

…

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

…

(c) To provide us with:[11]

23. The following footnote, referenced to paragraph 19 of this Auditing Standard is inserted as follows:

[11] See paragraph A23 for examples of other matters relating to management's responsibilities that may be included.

Amendments to ASA 240

24. Paragraph A4 is amended to read as follows:

… Fraud can be committed by management overriding controls using such techniques as intentionally:

…

- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.
- Omitting, obscuring or misstating disclosures required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation.
- Concealing~~, or not disclosing,~~ facts that could affect the amounts recorded in the financial report.

…

25. Paragraph A11 is amended to read as follows:

The discussion may include such matters as:

- An exchange of ideas among engagement team members about how and where they believe the entity's financial report (including the individual financial statements and the disclosures) may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.
- …
- A consideration of the risk that management may attempt to present disclosures in a manner that may obscure a proper understanding of the matters disclosed (for example, by including too much immaterial information or by using unclear or ambiguous language).

…

26. Paragraph Aus A65.1 is amended to read as follows:

An auditor is required by the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances.

Amendments to ASA 260

27. Paragraph A13 is amended to read as follows:

Matters communicated may include:

…

- When ASA 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- The auditor's planned approach to addressing the implications on the individual statements and the disclosures of any significant changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities.

28. Paragraph A14 is amended to read as follows:

Other planning matters that it may be appropriate to discuss with those charged with governance include:

…

- The views of those charged with governance ~~of~~ about:

…

  - Significant communications between the entity and ~~with~~ regulators.

…

- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial report, including:
  - The relevance, reliability, comparability and understandability of the information presented in the financial report; and
  - Considering whether the financial report is undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.

29. Paragraph A20 is amended to read as follows:

...Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and the quality of the disclosures. …

Amendments to ASA 300

30. Paragraph 9 is amended to read as follows:

…

(c) Other planned audit procedures that are required to be carried out so that the engagement complies with the Australian Auditing Standards. (Ref: Para. A12–A13)

…

31. New paragraph A13 is inserted after existing paragraph A12 as follows:

Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those disclosures. Further, certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them.

32. As a result of the change made in paragraph 31 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

33. New Paragraph A14 is inserted after existing paragraph A13 as follows:

Consideration of disclosures early in the audit assists the auditor in giving appropriate attention to, and planning adequate time for, addressing disclosures in the same way as classes of transactions, events and account balances. Early consideration may also help the auditor to determine the effects on the audit of:

- Significant new or revised disclosures required as a result of changes in the entity's environment, financial condition or activities (for example, a change in the required identification of segments and reporting of segment information arising from a significant business combination);
- Significant new or revised disclosures arising from changes in the applicable financial reporting framework;
- The need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures (for example, disclosures related to superannuation or other retirement benefit obligations); and
- Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.

34. The following footnote, referenced to paragraph 33 (last bullet point) of this Auditing Standard is inserted as follows:

2 See ASA 260, *Communication with Those Charged with Governance*, paragraph A12.

35. As a result of the change made in paragraph 33 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

36. Appendix 1 is amended to read as follows:

…

Significant Factors, Preliminary Engagement Activities, and Knowledge Gain on Other Engagements

…

- Evidence of management's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control.
- Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.
- …
- The process(es) management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information that is obtained from outside of the general and subsidiary ledgers.
- …
- ~~Significant changes in the financial reporting framework, such as changes in accounting standards.~~
- …

Amendments to ASA 315

37. Paragraph 18 is amended to read as follows:

The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. A89~~-A89a~~ A90)

…

(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A90-A93)

…

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial report that is obtained from within or outside of the general and subsidiary ledgers.

38. Paragraph 26 is amended to read as follows:

For this purpose, the auditor shall:

(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial report; (Ref: Para. A127–A129)

…

(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement ~~is of a magnitude that~~ could result in a material misstatement. (Ref: Para. A132)

39. Paragraph A1 is amended to read as follows:

…

- Identifying areas relating to amounts or disclosures in the financial report where special audit consideration may be necessary, for example: related party transactions, ~~the appropriateness of~~ or management~~'s use of the~~ assessment of the entity's ability to continue as a going concern ~~assumption~~; or when considering the business purpose of transactions;

…

40. Paragraph A19 is amended to read as follows:

…

- Significant changes that the entity or its operations may have undergone since the prior financial period, which may assist the auditor in gaining a sufficient understanding of the entity to identify and assess risks of material misstatement.
- Those particular types of transactions and other events or account balances (and related disclosures) where the auditor experienced difficulty in performing the necessary audit procedures, for example due to their complexity.

41. New paragraph A22 is inserted after existing paragraph A21 as follows:

As part of the discussion among the engagement team required by paragraph 10, consideration of the disclosure requirements of the applicable financial reporting framework assists in identifying early in the audit where there may be risks of material misstatement in relation to disclosures. Examples of matters the engagement team may discuss include:

- Changes in financial reporting requirements that may result in significant new or revised disclosures;
- Changes in the entity's environment, financial condition or activities that may result in significant new or revised disclosures, for example, a significant business combination in the period under audit;
- Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past; and
- Disclosures about complex matters, including those involving significant management judgement as to what information to disclose.

42. As a result of the change made in paragraph 41 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

43. Paragraph Aus A31.1 is deleted as follows:

~~Aus A31.1 Ownership and Governance arrangements such as:~~

~~o The role of the board of directors and those charged with governance in determining policies for the levels of risk that the entity is willing to accept in its daily operations.~~

~~o The role of senior management in designing, implementing, and monitoring effective risk management systems to implement the policies prescribed by the board of directors.~~

~~o The presence of non-executive directors on the board and an independent compensation committee that reviews incentive plans, including commissions, discretionary bonuses, directors' service contracts, and profit-sharing plans.~~

~~o The role of line management in carrying out the prescribed procedures and control activities.~~

~~o The strength of the internal audit function and the audit committee and their role as an independent appraisal function.~~

- ~~o The strength of other significant committees, for example, risk management committee, asset and liability management committee, or general management committee.~~
- ~~o The adequacy of segregation of duties.~~
- ~~o Prior period financial reporting disclosures include the form, classification, terminology, basis of amounts and level of detail provided.~~

44. Paragraph A26 is amended to read as follows:

…

- Accounting principles and industry-specific practices.
- Regulatory framework for a regulated industry, <u>including requirements for disclosures</u>.

…

45. Paragraph A30 is amended to read as follows:

…

- … Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately <u>and whether adequate disclosure of such issues in the financial report have been made</u>.
- The ownership, and relations<u>hips</u> between owners and other people or entities. This understanding assists the auditor in determining whether related party transactions have been <u>appropriately</u> identified~~, and~~ accounted for~~, appropriately~~ <u>and adequately disclosed in the financial report</u>. …

46. Paragraph A31 is amended to read as follows:

…

- Financial reporting <u>practices</u> such as:
  - o Accounting principles and industry-specific practices, including for industry-specific significant ~~categories~~ <u>classes of transactions, account balances and related disclosures in the financial report</u> (for example, loans and investments for banks, or research and development for pharmaceuticals).
  - o Revenue recognition ~~practices~~.

…

47. Paragraph A80 is amended to read as follows:

…

- The extent to which they evaluate whether the financial report is prepared in accordance with the applicable financial reporting framework, <u>including whether the financial report includes adequate disclosures</u>.

…

48. New paragraph A90 is inserted after existing paragraph A89 as follows:

<u>The financial report may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information may include:</u>

- <u>Information obtained from lease agreements disclosed in the financial report, such as renewal options or future lease payments.</u>

- Information disclosed in the financial report that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial report.
- Information disclosed in the financial report that has been obtained from models, or from other calculations used to develop estimates recognised or disclosed in the financial report, including information relating to the underlying data and assumptions used in those models, such as:
  - Assumptions developed internally that may affect an asset's useful life; or
  - Data such as interest rates that are affected by factors outside the control of the entity.
- Information disclosed in the financial report about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognised or disclosed in the financial report that has been obtained from an entity's tax returns and records.
- Information disclosed in the financial report that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

49. The following footnote, referenced to paragraph 48 of this Auditing Standard (last bullet point) is inserted as follows:

    2 See paragraphs 19–20 of ASA 570.

50. As a result of the change made in paragraph 48 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

51. New paragraph A91 is inserted after existing paragraph A90 as follows:

    The understanding of the information system relevant to financial reporting required by paragraph 18 of this Auditing Standard (including the understanding of relevant aspects of that system relating to information disclosed in the financial report that is obtained from within or outside of the general and subsidiary ledgers) is a matter of the auditor's professional judgement. For example, certain amounts or disclosures in the entity's financial report (such as disclosures about credit risk, liquidity risk, and market risk) may be based on information obtained from the entity's risk management system. However, the auditor is not required to understand all aspects of the risk management system, and uses professional judgement in determining the necessary understanding.

52. As a result of the change made in paragraph 51 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

53. Paragraph A93 is amended to read as follows:

    The i~~I~~nformation system, and related business processes, relevant to financial reporting in small entities, including relevant aspects of that system relating to information disclosed in the financial report that is obtained from within or outside of the general and subsidiary ledgers, ~~are~~ is likely to be less sophisticated than in larger entities, but ~~their~~ its role is just as significant. Small entities with active management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies.

Understanding the entity's information system relevant to financial reporting ~~and processes~~ may therefore be easier in an audit of smaller entities, and may be more dependent on enquiry than on review of documentation. The need to obtain an understanding, however, remains important.

54. New paragraph A100 is inserted after existing paragraph A99 as follows:

    Control activities relevant to the audit may include controls established by management that address risks of material misstatement related to disclosures not being prepared in accordance with the applicable financial reporting framework, in addition to controls that address risks related to account balances and transactions. Such control activities may relate to information included in the financial report that is obtained from outside of the general and subsidiary ledgers.

55. As a result of the change made in paragraph 54 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

56. Paragraph A119 is amended to read as follows:

    Risks at the financial statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as ~~management's~~ a lack of management competence or lack of oversight over the preparation of the financial report may have a more pervasive effect on the financial report and may require an overall response by the auditor.

57. Paragraph A123 is amended to read as follows:

    In representing that the financial report is in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding the recognition, measurement, and presentation of classes of transactions and events, account balances and disclosures ~~of the various elements of financial report and related disclosures~~.

58. Paragraph A124 is amended to read as follows:

    The auditor may use the assertions as described ~~above~~ in paragraph A124(a)-(b) below or may express them differently provided all aspects described ~~above~~ below have been covered. For example, the auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

59. A new heading is inserted above paragraph A125 as follows:

    Assertions about classes of transactions, account balances, and related disclosures

60. Paragraph A125 is amended to read as follows:

    Assertions used by the auditor ~~to~~in considering the different types of potential misstatements that may occur may fall into the following ~~three~~ categories ~~and may take the following forms~~:

    (a) Assertions about classes of transactions and events, and related disclosures, for the period under audit:

        (i) Occurrence—transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.

        (ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial report have been included.

(iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.

…

(vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

(b) Assertions about account balances, and related disclosures, at the period end:

…

(iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial report have been included.

(iv) Accuracy, ~~V~~valuation and allocation—~~ financial and other information are disclosed fairly and at appropriate amounts~~ assets, liabilities, and equity interests have been included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.

(v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.

(vi) Presentation— assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

~~(c) Assertions about presentation and disclosure:~~

~~(i) Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.~~

~~(ii) Completeness—all disclosures that should have been included in the financial report have been included.~~

~~(iii) Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.~~

~~(iv) Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.~~

61. A new heading is inserted before existing paragraph A125 as follows:

Assertions about other disclosures

62. New paragraph A125 is inserted after existing paragraph A124 as follows:

The assertions described in paragraph A124(a)–(b) above, adapted as appropriate, may also be used by the auditor in considering the different types of potential misstatements that may occur in disclosures not directly related to recorded classes of transactions, events, or account balances. As an example of such a disclosure, the entity may be required to describe its exposure to risks arising from financial instruments, including how the risks arise; the objectives, policies and processes for managing the risks; and the methods used to measure the risks.

63. As a result of the change made in paragraph 62 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

64. Existing paragraph A124 is deleted as follows:

~~The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about transactions and events with the assertions about account balances.~~

65. Paragraph A127 is amended to read as follows:

… The risk assessment determines the nature, timing and extent of further audit procedures to be performed. In identifying the risks of material misstatement in the financial report, the auditor exercises professional scepticism in accordance with ASA 200.

66. The following footnote, referenced to paragraph 63 of this Auditing Standard is inserted as follows:

[3] See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 15.

67. Paragraph A128 is amended to read as follows:

Appendix 2 provides examples of conditions and events that may indicate the existence of risks of material misstatement, including risks of material misstatement relating to disclosures.

68. New Paragraph A129 is inserted after existing paragraph A128 as follows:

As explained in ASA 320, materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial reporting needs of users of the financial report.

69. The following footnotes, referenced to paragraph 61 of this Auditing Standard are inserted as follows:

[1] See ASA 320, *Materiality in Planning and Performing an Audit*, paragraph A1.

[2] See ASA 320, paragraph 4.

70. As a result of the change made in paragraph 68 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

71. New paragraph A130 is inserted after existing paragraph A129 as follows:

The auditor's consideration of disclosures in the financial report when identifying risks includes quantitative and qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report as a whole). Depending on the circumstances of the entity and the engagement, examples of disclosures that will have qualitative aspects and that may be relevant when assessing the risks of material misstatement include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.
- Key sources of estimation uncertainty, including assumptions about the future.
- The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Share-based payment arrangements, including information about how any amounts recognised were determined, and other relevant disclosures.
- Related parties, and related party transactions.
- Sensitivity analysis, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount.

72. As a result of the change made in paragraph 71 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

73. A new heading is inserted after existing paragraph A129 as follows:

Considerations specific to smaller entities

74. New paragraph A131 is inserted after existing paragraph A130 as follows:

Disclosures in the financial report of smaller entities may be less detailed or less complex (e.g., some financial reporting frameworks allow smaller entities to provide fewer disclosures in the financial report). However, this does not relieve the auditor of the responsibility to obtain an understanding of the entity and its environment, including internal control, as it relates to disclosures.

75. As a result of the change made in paragraph 74 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

76. A new heading is inserted after new paragraph A131 as follows:

Material Misstatements

77. New paragraph A132 is inserted after existing paragraph A131 as follows:

Potential misstatements in individual statements and disclosures may be judged to be material due to size, nature or circumstances. (Ref: Para. 26(d))

78. As a result of the change made in paragraph 77 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

79. Appendix 2 is amended to read as follows:

The following are examples of conditions and events that may indicate the existence of risks of material misstatement in the financial report. …

- …

- Deficiencies in internal control, especially those not addressed by management.
- Incentives for management and employees to engage in fraudulent financial reporting.
- …
- Events or transactions that involve significant measurement uncertainty, including accounting estimates, and related disclosures.
- Omission, or obscuring, of significant information in disclosures.

…

Amendments to ASA 320

80. Paragraph 6 is amended to read as follows:

In planning the audit, the auditor makes judgements about ~~the size of~~ misstatements that will be considered material. These judgements provide a basis for:

... ~~Although i~~It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature~~,~~. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement. In addition, when evaluating the effect on the financial report of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence~~, when evaluating their effect on the financial report~~. (Ref: Para. A2)

81. The following footnotes, referenced to paragraph 69 of this Auditing Standard are inserted as follows:

[1] See ASA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs A129-A130.

[2] See ASA 450, paragraph A16.

82. Paragraph Aus A1.1 and related footnote * are deleted as follows:

~~Australian Accounting Standards explain the role of materiality in making judgements in the preparation and presentation of a financial report by the entity.*~~

~~* See Accounting Standard AASB 1031 *Materiality*.~~

83. A new heading is inserted after existing paragraph A1 as follows:

Materiality in the Context of an Audit (Ref: Para. 6)

84. New paragraph A2 is inserted after existing paragraph A1 as follows:

Identifying and assessing the risks of material misstatement involves the use of professional judgement to identify those classes of transactions, account balances and disclosures, including qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report as a whole). When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as:

- The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).
- The applicable financial reporting framework, including changes therein (for example, a new financial reporting standard may require new qualitative disclosures that are significant to the entity).

- Qualitative disclosures that are important to users of the financial report because of the nature of an entity (for example, liquidity risk disclosures may be important to users of the financial report for a financial institution).

85. The following footnote, referenced to paragraph 84 of this Auditing Standard, is inserted as follows:

    [1] See ASA 315, paragraph 25, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level.

86. As a result of the change made in paragraph 84 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

87. Paragraph A10 is amended to read as follows:

    …

    - Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions~~, and~~ the remuneration of management and those charged with governance, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty).
    - …
    - Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial report (for example, ~~a newly acquired business~~ disclosures about segments or a significant business combination).

88. Paragraph Aus A10.1 is deleted as follows:

    ~~In certain circumstances, an entity may be required to make disclosures in the financial report that are not subject to materiality.~~

Amendments to ASA 330

89. Paragraph 20 is amended to read as follows:

    …

    (a) Agreeing or reconciling information in the financial report with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and

    (b) …

90. The existing heading directly above paragraph 24 is amended to read as follows:

    Adequacy of Presentation ~~and~~ Disclosure of the Financial Report.

91. Paragraph Aus 21.1 is deleted as follows:

    ~~Timing of Substantive Procedures~~

    ~~Where the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence. (Ref: Para. A54)~~

92. Paragraph 24 is amended to read as follows:

The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial report~~, including the related disclosures~~, is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial report is presented in a manner that reflects the appropriate:

- Classification and description of financial information and the underlying transactions, events and conditions; and
- Presentation, structure and content of the financial report. (Ref: Para. A59)

93. Paragraph 30 is amended to read as follows:

The auditor's documentation shall demonstrate that information in the financial report agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

94. Paragraph A13 is amended to read as follows:

In addition, certain audit procedures can be performed only at or after the period end, for example:

- Agreeing or reconciling information in the financial report with the underlying accounting records, including ~~classes of transactions, account balances and agreeing or reconciling disclosures, with the underlying accounting records including, as applicable, those relevant accounting records that are~~ whether such information is obtained from within or outside of the general and subsidiary ledgers;

…

95. Paragraph A14 is amended to read as follows:

Further relevant factors that influence the auditor's consideration of when to perform audit procedures include the following:

…

- The timing of the preparation of the financial report, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.

96. Paragraph A52 is amended to read as follows:

The nature, and also the extent, of the auditor's substantive procedures related to the financial statement closing process ~~examination of journal entries and other adjustments~~ depends on the nature and complexity of the entity's financial reporting process and the related risks of material misstatement.

97. The heading directly above paragraph A59 is amended to read as follows:

Adequacy of Presentation ~~and Disclosure~~ of the Financial Report (Ref: Para. 24)

98. Paragraph A59 is amended to read as follows:

Evaluating the ~~overall~~ appropriate presentation, arrangement and content of the financial report, ~~including the related disclosures, relates to whether the individual financial report is presented in a manner that reflects the appropriate classification and description of financial information, and the form, arrangement, and content of the financial report and their appended~~

~~notes. This~~ includes, for example, consideration of the terminology used as required by the applicable financial reporting framework, the ~~amount~~ level of detail ~~given~~ provided, the ~~classification of items in the statements, aggregation and disaggregation of amounts~~ and the bases of amounts set forth.

Amendments to ASA 450

99. Paragraph 4 is amended to read as follows:

For purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:

(a) Misstatement – A difference between the reported amount, classification, presentation, or disclosure of a ~~reported~~ financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. …

…

100. Paragraph A1 is amended to read as follows:

Misstatements may result from:

…

(b) An omission of an amount or disclosure, including inadequate or incomplete disclosures, and those disclosures required to meet disclosure objectives of certain financial reporting frameworks as applicable;

(c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; ~~and~~

(d) Judgements of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.;

(e) An inappropriate classification, aggregation or disaggregation, of information; and

(f) For a financial report prepared in accordance with a fair presentation framework, the omission of a disclosure necessary for the financial report to achieve fair presentation beyond disclosures specifically required by the framework.

…

101. The following footnotes, referenced to paragraph 85 of this Auditing Standard, are inserted as follows:

1. For example, AASB 7, Financial Instruments: Disclosures, paragraph 42H states that "an entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph…"

2. For example, Australian Accounting Standards requires an entity to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (See AASB 101, Presentation of Financial Statements, paragraph 17(c)).

102. Paragraph A2 is amended to read as follows:

~~The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial report~~. Paragraph 5 of this Auditing Standard requires the auditor to accumulate misstatements identified during the audit other than those that are clearly trivial. "Clearly trivial" is not another expression for "not material." ~~Matters~~ Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, ~~than materiality determined in accordance with ASA 320~~, and will be matters and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the ~~matter~~ misstatement is considered not to be clearly trivial.

103. A new heading is inserted after existing paragraph A2 as follows:

Misstatements in Individual Statements

104. New paragraph A3 is inserted as follows:

The auditor may designate an amount below which misstatements of amounts in the individual statements would be clearly trivial, and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial report. However, misstatements of amounts that are above the designated amount are accumulated as required by paragraph 5 of this Auditing Standard. In addition, misstatements relating to amounts may not be clearly trivial when judged on criteria of nature or circumstances, and, if not, are accumulated as required by paragraph 5 of this Auditing Standard.

105. As a result of the change made in paragraph 104 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

106. A new heading is inserted after new paragraph A3 as follows:

Misstatements in Disclosures

107. New paragraph A4 is inserted as follows:

Misstatements in disclosures may also be clearly trivial whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances. Misstatements in disclosures that are not clearly trivial are also accumulated to assist the auditor in evaluating the effect of such misstatements on the relevant disclosures and the financial report as a whole. Paragraph A14 of this Auditing Standard provides examples of where misstatements in qualitative disclosures may be material.

108. As a result of the change made in paragraph 107 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

109. A new heading is inserted after new paragraph A4 as follows:

Accumulation of Misstatements

110. New paragraph A5 is inserted after new paragraph A4 as follows:

Misstatements by nature or circumstances, accumulated as described in paragraphs A3-A4, cannot be added together as is possible in the case of misstatements of amounts. Nevertheless, the auditor is required by paragraph 11 of this Auditing Standard to evaluate those misstatements individually and in aggregate (i.e., collectively with other misstatements) to determine whether they are material.

111. As a result of the change made in paragraph 110 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

112. Existing paragraph A3 is amended to read as follows:

…

- Judgemental misstatements are differences arising from the judgements of management including those concerning recognition, measurement, presentation and disclosure in the financial report (including ~~accounting estimates that the auditor considers unreasonable, or~~ the selection or application of accounting policies) that the auditor considers unreasonable or inappropriate.

…

113. Existing paragraph A7 is amended to read as follows:

Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the ~~items~~ classes of transactions, account balances and disclosures are misstated~~ments~~, inform the auditor if it disagrees, and take action as necessary. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action.

114. Existing paragraph A13 is amended to read as follows:

Each individual misstatement of an amount is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.

115. New paragraph A14 is inserted after existing paragraph A13 as follows:

In addition, each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial report as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgement. Examples where such misstatements may be material include:

- Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
- The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.
- The incorrect description of an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.
- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes International trading activities.

116. As a result of the change made in paragraph 115 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

117. New paragraph A15 is inserted after new paragraph A14 as follows:

In determining whether uncorrected misstatements by nature are material as required by paragraph 11 of this Auditing Standard, the auditor considers uncorrected misstatements in amounts and disclosures. Such misstatements may be considered material either individually, or when taken in combination with other misstatements. For example, depending on the misstatements identified in disclosures, the auditor may consider whether:

(a) Identified errors are persistent or pervasive; or

(b) A number of identified misstatements are relevant to the same matter, and considered collectively may affect the users' understanding of that matter.

This consideration of accumulated misstatements is also helpful when evaluating the financial report in accordance with paragraph 13(d) of ASA 700, which requires the auditor to consider whether the overall presentation of the financial report has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.

118. The following footnote, referenced to paragraph 117 of this Auditing Standard, is inserted as follows:

1. See ASA 700, *Forming an Opinion and Reporting on a Financial Report*.

119. As a result of the change made in paragraph 117 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

120. Existing paragraph A17 is amended to read as follows:

… Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management's judgements; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial report.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ASA 200.

121. The following footnote, referenced to paragraph 120 of this Auditing Standard, is inserted as follows:

1. See ASA 200, paragraph 15.

Amendments to ASA 700

122. Paragraph Aus 8.2 is amended to read as follows:

Reference to "a financial report' in this Auditing Standard means "a complete set of general purpose financial statements, including an assertion statement by those responsible for the financial report." ~~The related notes ordinarily comprise a summary of the significant accounting policies and other explanatory information~~. The requirements of the applicable financial reporting framework determine the presentation, ~~form~~ structure and content of the financial report, and what constitutes a financial report.

…

123. The following footnote, referenced to paragraph 122 (a complete set of general purpose financial statements) of this Auditing Standard, is inserted as follows:

[1] See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(f) sets out the content of a financial report.

124. Paragraph 13 is amended to read as follows:

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) The financial report ~~adequately~~ appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)

…

(d) … In making this evaluation, the auditor shall consider whether:

- The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterised.
- The overall presentation of the financial report have been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)

…

125. Paragraph 14 is amended to read as follows:

… The auditor's evaluation as to whether the financial report achieves fair presentation shall include consideration of: (Ref: Para A5-A6)

(a) …

(b) Whether the financial report~~, including the related notes,~~ represents the underlying transactions and events in a manner that achieves fair presentation.

126. Paragraph 48 is amended to read as follows:

…

(a) All the statements and disclosures that comprise the financial report, ~~including the related notes~~, have been prepared; and

(b) ...

127. A new heading is inserted after existing paragraph A3 as follows:

Accounting Policies Appropriately Disclosed in the Financial Report (Ref: Para. 13(a))

128. New paragraph A4 is inserted after existing paragraph A3 as follows:

In evaluating whether the financial report appropriately discloses the significant accounting policies selected and applied, the auditor's consideration includes matters such as:

- Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
- Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial report in the particular circumstances of the entity's operations and its environment; and
- The clarity with which the significant accounting policies have been presented.

129. As a result of the change made in paragraph 128 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

130. A new heading is inserted after new paragraph A4 as follows:

Information Presented in the Financial Report Is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

131. New paragraph A5 is inserted directly after new paragraph A4:

Evaluating the understandability of the financial report includes consideration of such matters as whether:

- The information in the financial report is presented in a clear and concise manner.
- The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.

132. As a result of the change made in paragraph 131 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

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

… ~~In such circumstances, the auditor evaluates whether the financial report~~ Evaluating whether, in view of the applicable financial reporting framework, the financial report provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows includes consideration of such matters as:

- The extent to which the information in the financial report is relevant and specific to the circumstances of the entity; and
- Whether the disclosures are adequate to assist the intended users to understand:
    - The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for de-recognition) established by the applicable financial reporting framework.
    - The nature and extent of risks of material misstatement arising from transactions and events.
    - The methods used and the assumptions and judgements made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses.

134. A new heading is inserted after existing paragraph A4 as follows:

Evaluating Whether the Financial Report Achieves Fair Presentation (Ref: Para. 14)

135. New paragraph A6 is inserted after new paragraph A5 as follows:

Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation. As noted in paragraph 7(b) of this Auditing Standard, a fair presentation financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.

136. The following footnotes, referenced to paragraph 135 of this Auditing Standard, are inserted as follows:

1. For example, Australian Accounting Standards note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

2. See ASA 200, paragraph 13(a)

3. For example, Australian Accounting Standards require an entity to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (See AASB 101, *Presentation of Financial Statements*, paragraph 17(c)).

137. As a result of the change made in paragraph 135 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

138. New paragraph A7 is inserted after new paragraph A6 as follows:

The auditor's evaluation about whether the financial report achieves fair presentation, both in respect of presentation and disclosure, is a matter of professional judgement. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial report as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

139. As a result of the change made in paragraph 138 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

140. New paragraph A8 is inserted as follows:

Evaluating whether the financial report achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the financial report is aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

141. As a result of the change made in paragraph 140 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.

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

Since the auditor's opinion is provided on the financial report and the financial report is the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements and disclosures that comprises the financial report, ~~including~~ ~~the~~ ~~related~~ ~~notes~~, have been prepared and management has accepted responsibility for them.

143. Existing paragraph A63 is amended to read as follows:

In some jurisdictions, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements and disclosures that comprises the financial report, ~~including~~ ~~the~~ ~~related~~ ~~notes~~, have been prepared, and specifies the necessary approval process. …

144. Existing paragraph A64 is amended to read as follows:

… The date of approval of the financial report for purposes of Australian Auditing Standards is the earlier date on which those with the recognised authority determine that all the statements and disclosures that comprises the financial report, ~~including~~ ~~the~~ ~~related~~ ~~notes~~, has been prepared and that those with the recognised authority have asserted that they have taken responsibility for them

Amendments to ASA 540

145. Paragraph 19 is amended to read as follows:

…

- Accounting policies relating to accounting estimates have changed, as a result of changes ~~to~~ within the requirements of the applicable financial reporting framework or otherwise.

…

Amendments to ASA 580

146. The following footnote is inserted in Appendix 2 as follows:

…

Information Provided

We have provided you with:[1]

…

[1] If the auditor has included other matters relating to management's responsibilities in the audit engagement letter in accordance with ASA 210 *Agreeing the Terms of Audit*

Engagements, consideration may be given to including these matters in the written representations from management or those charged with governance.

Amendments to ASA 705

147. Paragraph 21 is amended to read as follows:

If there is a material misstatement of the financial report that relates to specific amounts in the financial report (including quantitative disclosures ~~in the notes to the financial report~~), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. …

148. Paragraph 22 is amended to read as follows:

If there is a material misstatement of the financial report that relates to ~~narrative~~ qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

149. Paragraph A3 is amended to read as follows:

ASA 450 defines a misstatement as a difference between the reported amount, classification, presentation, or disclosure of a ~~reported~~ financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. …

150. Paragraph A4 is amended to read as follows:

In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial report may arise, for example, when:

…

(b) The financial report does not correctly describe an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows; or

(c) (~~b~~)The financial report, ~~including the related notes~~, does not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

...

151. Paragraph A7 is amended to read as follows:

…

(c) The financial report does not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph A14 of ASA 450 provides further examples of material misstatements in qualitative disclosures that may arise.

Amendments to ASA 800

152. Paragraph Aus 6.1 is amended to read as follows:

Special purpose financial report means a complete set of financial statements~~, including the related notes~~ including an assertion statement by those responsible for the financial report, prepared in accordance with a special purpose framework. ~~The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information~~.

The requirements of the applicable financial reporting framework determine the presentation, structure, ~~form~~ and content of a financial report prepared in accordance with a special purpose framework.

Amendments to ASA 805

153. Paragraph 6 is amended to read as follows:

For purposes of this Auditing Standard, reference to:

(a) "Element of a financial statement" or "element" means an "element, account or item of a financial statement;"

(b) "Australian Accounting Standards" means the Australian Accounting Standards issued by the Australian Accounting Standards Board; and

(c) A single financial statement or to a specific element of a financial statement includes the related ~~notes~~ disclosures. The related ~~notes~~ disclosures ordinarily comprise ~~a summary of significant accounting policies and other~~ explanatory or other descriptive information relevant to the financial statement or to the element.

154. Paragraph Aus A2.1 is amended to read as follows:

ASA 200 defines the term "financial report" as a structured representation of historical financial information, including ~~related notes~~ disclosures, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial report" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or other descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

155. The following footnote, referenced to paragraph 154 (ASA 200 reference) of this Auditing Standard, is inserted as follows:

[1] See ASA 200, paragraph 13(f).