

EXPOSURE DRAFT

ED 18/09

(June 2009)

**Proposed Auditing Standard
ASA 101
*Preamble to Australian
Auditing Standards (Revised
and Redrafted)***

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 20 July 2009. Comments should be addressed to:

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Copies of all non-confidential submissions will be placed on public record on the 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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Proposed Auditing Standard ASA 101
Preamble to Australian Auditing Standards (Revised and Redrafted)

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PREFACE

Reasons for Issuing ED 18/09

The Auditing and Assurance Standards Board (AUASB) is proposing to issue Auditing Standard ASA 101 *Preamble to Australian Auditing Standards (Revised and Redrafted)* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board 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 Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

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 ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs. The revised Australian Auditing Standards are operative for engagements with financial reporting periods commencing on or after 1 January 2010; and for firms required to establish systems of quality control by 1 January 2010.

ASA 101 Preamble to Australian Auditing Standards

As the (revised) Australian Auditing Standards are legally enforceable, the AUASB considers it necessary for an interpretive document to form part of the suite of standards. The purpose of ASA 101 is to deal with matters that are additional to those dealt with elsewhere in the Auditing Standards .

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ASA 101 does not replace or amend ASA 100 *Preamble to AUASB Standards* which continues to be applicable to all AUASB standards other than the (revised) Auditing Standards operative for engagements with financial reporting periods commencing on or after 1 January 2010; and for firms required to establish systems of quality control by 1 January 2010.

Proposed Auditing Standard ASA 101
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Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material additional to those included elsewhere in the Australian Auditing Standards, operative for engagements with financial reporting periods commencing on or after 1 January 2010; and for firms required to establish systems of quality control by 1 January 2010. The proposed standard addresses:

- The meaning of certain terms;
- the authority of each paragraph type found within the Auditing Standards;
- the linkage to the relevant Parts of the *Corporations Act 2001* to which the Auditing Standards apply; and
- the documentation requirements when a Requirement is not relevant.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative on and after 1 January 2010.

New Auditing Standard

This proposed Auditing Standard is a new pronouncement of the AUASB and accordingly does not replace a pre-existing Auditing Standard.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of Auditing Standard ASA 101, *Preamble to Australian Auditing Standards* by no later than 20 July 2009. 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?

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4. What, if any, are the significant costs to/benefits for auditors and the business community arising from compliance with the Requirements of this proposed Auditing 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 Auditing Standard.

AUASB Information Note

The AUASB has not yet completed the project to revise and redraft the Australian Auditing Standards (in “clarity” format). While all currently known matters relating to the revised standards are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make conforming amendments and other editorial changes.

Proposed Auditing Standard ASA 101
Preamble to Australian Auditing Standards (Revised and Redrafted)

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 101 *Preamble to Australian Auditing Standards (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the Australian Auditing Standards, operative on and after 1 January 2010.

AUDITING STANDARD ASA 101

Preamble to Australian Auditing Standards (Revised and Redrafted)

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit or a review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) a review, by the independent auditor of the entity, of an interim or other financial report for any other purpose; and
 - (d) a firm¹ required to comply with ASQC 1 (Revised and Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*.
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 engagements with financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality control in compliance with ASQC 1 by 1 January 2010.
4. This Auditing Standard supersedes interpretive information contained in ASA 100 *Preamble to AUASB Standards (04/06)* to the extent that ASA 100 applies to the Australian Auditing Standards

¹ See ASQC 1 paragraphs Aus 4.1 and 12 (g): A firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners.

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Introduction

Scope of this ASA

5. The purpose of this Auditing Standard is to set out mandatory components additional to those included elsewhere in the Australian Auditing Standards referred to in paragraph Aus 2.1.
6. ASA 100 *Preamble to AUASB Standards (04/06)* applies to all AUASB Standards other than the Australian Auditing Standards referred to in paragraph Aus 2.1.

Objective

7. The objective of the auditor and the firm is to use this Auditing Standard in order to understand, interpret and apply the Australian Auditing Standards operative for engagements with financial reporting periods commencing on or after 1 January 2010; and for firms required to establish systems of quality control by 1 January 2010.

Definitions

8. The following terms have the meanings attributed below:
 - (a) Auditing Standards means auditing standards made under section 336 of the *Corporations Act 2001* (the Act), and include:
 - (i) ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*; and
 - (ii) ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.
 - (b) Australian Auditing Standards means the suite of auditing standards issued by the AUASB, and include:
 - ASA 805 *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and

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- *ASA 810 Engagements to report on Summary Financial Statements.*

Requirements

Authority of the Paragraphs in Australian Auditing Standards

9. The auditor shall apply the mandatory components of the Australian Auditing Standards when conducting an audit or review in accordance with those Standards. The mandatory components are included in each Auditing Standard under the headings listed below:
- (i) Application (paragraph Aus 0.1).
 - (ii) Operative Date.
 - (iii) Objective(s).
 - (iv) Definition(s).
 - (v) Requirements.
10. The auditor shall consider the whole text of an Auditing Standard to understand, interpret and apply the mandatory components. The explanatory material is included in each Auditing Standard under the headings listed below:
- (i) Application (paragraph Aus 0.2).
 - (ii) Introduction.
 - (iii) Application and Other Explanatory Material.
 - (iv) Conformity with International Standards on Auditing.
 - (v) Appendices.

Explanatory material does not create or extend mandatory components. (Ref: A1)

Engagements under the *Corporations Act 2001*

11. The Application paragraph, identified as “Aus 0.1”, in each Auditing Standard, with the exception of this Auditing Standard, refers to audits or reviews conducted in accordance with the *Corporations*

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Act 2001 (the “Act”). Accordingly, the Auditing Standards made under section 336 of the Act apply specifically to:

- (a) an audit or a review conducted under Part 2M.3 of the Act;
and
- (b) an audit of a profit and loss statement and balance sheet conducted under Part 7.8 of the Act.

Compliance with Requirements

- 12. When, in the circumstances of the audit, a Requirement is not relevant due to the conditions described in *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Revised and Redrafted), the auditor need not document the reason(s) why the Requirement is not relevant. (Ref: A2)

* * *

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Application and Other Explanatory Material

Authority of the Paragraphs in Australian Auditing Standards (Ref: 10)

- A1. Included within the Requirements section of a standard are references to paragraphs in the “Application and Other Explanatory Material” section of the standard. Such references do not extend or create Requirements.

Compliance with Requirements (Ref: 12)

- A2. Under paragraph 12, an auditor need not document the reasons why a Requirement is not relevant. However, where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant mandatory Requirement, the auditor is required² to document:
- (a) The circumstances surrounding the inability to comply;
 - (b) The reasons for the inability to comply; and
 - (c) Justification of how alternative procedures achieve the objectives of the mandatory Requirement.

² See ASA 230 *Audit Documentation* (Revised and Redrafted) and ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (Revised and Redrafted).

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Conformity with International Standards on Auditing

This Auditing Standard relates to the Australian legislative environment 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).

Compliance with this Auditing Standard does not affect compliance with the ISAs .