

EXPOSURE DRAFT

ED 21/09
(September 2009)

**Proposed Auditing Standard
ASA 102**
*Compliance with Ethical
Requirements when
Performing Audits, Reviews
and Other Assurance
Engagements*

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 7 October 2009. Comments should be addressed to:

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A copy 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 102
*Compliance with Ethical Requirements when Performing Audits, Reviews
and Other Assurance Engagements*

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Proposed Auditing Standard ASA 102
Compliance with Ethical Requirements when Performing Audits, Reviews
and Other Assurance Engagements

PREFACE

Reasons for Issuing ED 21/09

The Auditing and Assurance Standards Board (AUASB) is proposing to issue Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* 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*.

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 International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (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 AUASB proposes to make ASA 102 as an Auditing Standard under the *Corporations Act 2001* for Australian legislative purposes. Proposed ASA 102 will enable references to relevant ethical requirements in other AUASB Standards to remain current, as they will be explicitly linked to ASA 102. The proposed Auditing Standard also provides guidance to the auditor, assurance practitioner, and firm in relation to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (February 2008). The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

There is no equivalent ISA issued by the IAASB. However, the requirements and application and other explanatory material in proposed ASA 102 have been drawn from several standards of the IAASB. The AUASB proposes to

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make ASA 102 in a format that is consistent with the other revised and redrafted Australian Auditing Standards operative for 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 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements* by 1 January 2010.

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*Compliance with Ethical Requirements when Performing Audits, Reviews
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Main Proposals

This proposed Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of the auditor, the assurance practitioner, and the firm for compliance with relevant ethical requirements when performing audits, reviews and other assurance engagements.

Proposed ASA 102 is to be made under the *Corporations Act 2001* for Australian legislative purposes and accordingly, there is no extant Australian Auditing Standard. However, the requirements and application and other explanatory material in proposed ASA 102 have been drawn from several standards of the IAASB and the equivalent Australian Auditing Standards.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for engagements with 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.

Request for Comments

Comments are invited on this Exposure Draft of the proposed Auditing Standard ASA 102 by no later than 7 October 2009. Respondents are asked to consider and respond to the following questions:

1. Is the reference to *relevant ethical requirements* in the requirements section of proposed ASA 102 appropriate for the purposes of referencing in other AUASB Standards?
2. Is it appropriate for ASA 102 to state in the application and other explanatory material that the auditor, assurance practitioner, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (February 2008) in determining whether the requirements of ASA 102 has been met?
3. Have applicable laws and regulations been appropriately addressed and included in the proposed standard?

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4. 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?
5. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
6. 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 requirements of this proposed Auditing Standard are 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.

Proposed Auditing Standard ASA 102
*Compliance with Ethical Requirements when Performing Audits, Reviews
and Other Assurance Engagements*

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* 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 ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 are to be understood, interpreted and applied.

AUDITING STANDARD ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

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 or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other financial information;
 - (d) other assurance engagements; and
 - (e) a firm required to comply with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*.

Operative Date

2. This Auditing Standard is operative for engagements with 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.

Objective

3. The objective of the auditor, assurance practitioner and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

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Definitions

4. The following terms have the meanings attributed below:
- (a) Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.¹
 - (b) Auditor means the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an Auditing Standard expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.²
 - (c) Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. “Firm” should be read as referring to a public sector equivalent where relevant.³

Requirement

Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7)

5. The auditor, assurance practitioner, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

* * *

¹ See ASQC 1.
² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
³ See ASQC 1.

Proposed Auditing Standard ASA 102
Compliance with Ethical Requirements when Performing Audits, Reviews
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Application and Other Explanatory Material

Compliance with Relevant Ethical Requirements (Ref: Para. 5)

- A1. The auditor, assurance practitioner, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (February 2008), which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 5 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.
- A2. APES 110 establishes the fundamental principles of professional ethics and provides a conceptual framework for applying those principles.
- A3. The fundamental principles of professional ethics, as described in APES 110, include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour.
- A4. APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
- A5. In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence

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enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

A6. The fundamental principles in APES 110 are reinforced in particular by:

- The leadership of the firm;
- Education and training;
- Monitoring; and
- A process for dealing with non-compliance.

A7. The definitions of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards, including terms defined in ASQC 1 and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

For example, APES 110 defines the "firm" as:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means;
- (c) An entity controlled by such parties through ownership, management or other means; and
- (d) An auditor-general's office or department.

whereas ASQC 1 defines the "firm" as:

"Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. "Firm" should be read as referring to a public sector equivalent where relevant".

APES 110 also provides guidance in relation to the terms "network" and "network firm."

In complying with the Requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1 and ASA 220.

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Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly, there is no equivalent International Standard on Auditing issued by the International Auditing and Assurance Standards Board (IAASB).

However, the following requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Control for an Audit of Financial Statements* as issued by the IAASB (April 2009):

- Paragraph 5 (requirement) from ISA 200 paragraph 14, ISA 220 paragraphs 9-11 and ISQC 1 paragraph 20
- Paragraph A1 from ISA 200 paragraph A14
- Paragraph A2 from ISA 200 paragraph A15
- Paragraph A3 from ISQC 1 paragraph A7, ISA 200 paragraph A15 and ISA 220 paragraph A4;
- Paragraph A4 from ISQC 1 paragraph A8;
- Paragraph A5 from ISA 200 paragraph A16;
- Paragraph A6 from ISQC 1 paragraph A9; and
- Paragraph A7 from ISQC 1 paragraph A10 and ISA 220 paragraph A5.

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQC 1.

Source of Requirements and Application and Explanatory Material — Proposed ASA 102

Underlying Standards

Requirements and application and other explanatory material from ISA 200, ISA 220 and ISQC 1 (Revised and Redrafted) and the equivalent Australian Auditing Standards (Revised and Redrafted) are used as the underlying provisions for the purpose of drafting this proposed Auditing Standard. The underlying provisions of the International Auditing Standards will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

The table below details the source of the requirements and application and other explanatory material in proposed ASA 102.

Item #	ASA Para. #	Proposed ASA 102 Requirements	Commentary	Source
Objective				
1	3	The objective of the auditor, assurance practitioner and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.	New Objective in accordance with “Clarity” re-drafting rules.	N/A
Definitions				
2	4	<p>The following terms have the meanings attributed below:</p> <p>(a) Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.</p> <p>(b) Auditor means the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an Auditing Standard expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring</p>	Definitions from other standards included in ASA 102 as helpful guidance for users.	<p>(a) Assurance Practitioner ASA 220 ASQC 1</p> <p>(b) Auditor ISA 200/ASA 200</p> <p>(c) Firm ISA 220/ASA 220 ISQC 1/ASQC 1</p>

Item #	ASA Para. #	Proposed ASA 102 Requirements	Commentary	Source
		<p>to their public sector equivalents where relevant.</p> <p>(c) Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. "Firm" should be read as referring to a public sector equivalent where relevant</p>		
Requirements				
Compliance with Relevant Ethical Requirements (Ref: Para. A1-A7)				
3	5	The auditor, assurance practitioner, and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.	Requirement from other standards included in proposed ASA 102.	ISA 200 para 14 ISA 220 para 9-11 ISQC 1 para 20
Application and Other Explanatory Material				
4	A1	The auditor, assurance practitioner, and firm are to have regard to the applicable requirements of APES 110 <i>Code of Ethics for Professional Accountants</i> issued by the Accounting Professional and Ethical Standards Board (February 2008), which are taken into account in determining whether relevant ethical requirements referred to in paragraph 5 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the <i>Corporations Act 2001</i> , the provisions of Division 3 Part 2M.4 of the Act may also apply.	Guidance material from other standard included in proposed ASA 102.	ISA 200 para A14
5	A2	APES 110 establishes the fundamental principles of professional ethics and provides a conceptual framework for applying those principles	Guidance material from other standard included in proposed ASA 102.	ISA 200 para A15
6	A3	<p>The fundamental principles of professional ethics, as described in APES 110, include:</p> <p>(a) Integrity;</p> <p>(b) Objectivity;</p> <p>(c) Professional competence and due care;</p>	Guidance material from other standards included in proposed ASA 102.	ISA 200 para A15 ISA 220 para A4 ISQC 1 para A7

Item #	ASA Para. #	Proposed ASA 102 Requirements	Commentary	Source
		(d) Confidentiality; and (e) Professional behaviour		
7	A4	APES 110 illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.	Guidance material from other standard included in proposed ASA 102.	ISQC 1 para A8
8	A5	In the case of an audit engagement, it is in the public interest and required by APES 110, that the auditor be independent of the entity subject to the audit. APES 110 describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.	Guidance material from other standard included in proposed ASA 102.	ISA 200 para A16
9	A6	The fundamental principles in APES 110 are reinforced in particular by: <ul style="list-style-type: none"> • The leadership of the firm; • Education and training; • Monitoring; and A process for dealing with non-compliance.	Guidance material from other standard included in proposed ASA 102.	ISQC 1 para A9
10	A7	The definitions of terms in APES 110 may differ from the definitions of those terms in Australian Auditing Standards, including terms defined in ASQC 1 and ASA 220 <i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i> . For example, APES 110 defines the "firm" as: <ul style="list-style-type: none"> (a) A sole practitioner, partnership, corporation or 	Guidance material from other standards included in proposed ASA 102.	ISA 220 para A5 ISQC 1 para A10

Item #	ASA Para. #	Proposed ASA 102 Requirements	Commentary	Source
		<p>other entity of professional accountants;</p> <p>(b) An entity that controls such parties through ownership, management or other means;</p> <p>(c) An entity controlled by such parties through ownership, management or other means; and</p> <p>(d) An auditor-general's office or department.</p> <p>whereas ASQC 1 defines the "firm" as:</p> <p>"Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. "Firm" should be read as referring to a public sector equivalent where relevant".</p> <p>APES 110 also provides guidance in relation to the terms "network" and "network firm."</p> <p>In complying with the Requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of ASQC 1 and ASA 220</p>		