



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **13**

Meeting Date: 27 February 2012

Subject: Guidance Statement GS 020 *Special Considerations in Auditing Financial Instruments*

Date Prepared: 30 January 2012

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To consider and approve Guidance Statement GS 020 *Special Considerations in Auditing Financial Instruments*.
2. To approve the withdrawal of AGS 1030 *Auditing Derivative Financial Instruments*, issued by the AUASB in July 2002.

Background

In June 2009, the IAASB commenced a project to revise International Auditing Practice Statement (IAPS) 1012 *Auditing Derivative Financial Instruments*. The project scope extended to auditing considerations for a range of financial instruments, not just derivatives.

The AUASB responded to both the IAASB Consultation Paper (issued October 2009) and the IAASB Exposure Draft (issued October 2010).

Concurrently with this project, the IAASB undertook a project to amend the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (Preface) to clarify the status and authority of IAPs. The latter project led to withdrawal by the IAASB of all remaining, out-dated, IAPSs and the adoption of a new type of non-authoritative, guidance document called an International Auditing Practice Note (IAPN), to replace the IAPS series.

In December 2010, the IAASB concluded its project on financial instruments. The resulting document is the first IAPN in the new series, IAPN 1000 *Special Considerations in Auditing Financial Instruments*.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Matters to Consider

1. Using IAPN 1000 as the basis for GS 020

AGS 1030 *Auditing Derivative Financial Instruments* (July 2002) which precedes proposed GS 020, was based on the IAPS 1012 *Auditing Derivative Financial Instruments* (2001) – see Agenda Item 13.8.

Further, the IAASB has stated that, “[IAPNs] are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material” – see Agenda Item 13.3, page 5 (boxed statement).

For these reasons, it is proposed that GS 020 should be based on IAPN 1000 *Special Considerations in Auditing Financial Instruments* (December 2010) – see Agenda Item 13.3.

2. Content of IAPN 1000 / GS 020

The IAASB’s Basis for Conclusions is included at Agenda Item 13.4

3. Minimal changes to IAPN 1000 in developing GS 020

The AUASB has closely monitored the development of IAPN 1000 and has provided input throughout the project. IAPN 1000 largely reflects the financial reporting and auditing environment that exists within Australia and, accordingly, minimal changes are proposed to the material in IAPN 1000 in developing GS 020 – see Agenda Item 13.1.

Proposed minimal changes reflect the following:

- (a) Including references to “Australian Accounting Standards” where appropriate, to focus the guidance statement on Australia. This is considered necessary because the IAASB has used generic language in IAPN 1000 to facilitate its applicability across many jurisdictions, with differing financial reporting frameworks. See, for example, paragraph 34 of proposed GS 020, which demonstrates this type of change.
- (b) Adopting the style used for other recent AUASB guidance statements, which is based on the ‘Clarity’ format – for example, identifying any additional paragraphs with the prefix “Aus” and any deleted paragraphs with the notation “[Deleted by the AUASB]”.
- (c) Replacing “International Auditing Practice Note” and “IAPN” with “Guidance Statement” and “GS”.
- (d) Referring to Australian Auditing Standards, rather than International Standards on Auditing (ISAs).
- (e) Other minor editorial changes to adjust spelling, terminology or format for the Australian context.

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4. Australian Accounting Standards

Proposed GS 020 includes an introductory paragraph relating to the Australian Accounting Standards on financial instruments (paragraph Aus 8.1) and deliberately avoids making references to specific Accounting Standards in the remainder of the document. This approach has been adopted for the following reasons:

- (a) Australian Accounting Standards on financial instruments are changing, consistent with the changes being made internationally as the IASB progressively replaces IAS 139 and amends other related accounting standards - see Agenda Item 13.7. GS 020 should be written such that it does not require constant updating.
- (b) Including specific references to accounting standards throughout the guidance statement could be viewed as 'giving accounting advice' or 'interpreting accounting standards', and this is clearly not the role of the AUASB.

5. Regulatory Impact Assessment

The Regulatory Impact Assessment prepared for proposed GS 020 (see Agenda Item 13.5) has been approved by the Office of Best Practice Regulation (see Agenda Item 13.6).

AUASB Technical Group Recommendations

That the AUASB approve:

1. GS 020 *Special Considerations in Auditing Financial Instruments*, subject to the usual finalisation processes; and
2. The withdrawal of AGS 1030 *Auditing Derivative Financial Instruments*.

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Material Presented

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| Agenda Item 13 | AUASB Board Meeting Summary Paper |
| Agenda Item 13.1 | GS 020 <i>Special Considerations in Auditing Financial Instruments</i> (Marked Up Version) |
| Agenda Item 13.2 | GS 020 <i>Special Considerations in Auditing Financial Instruments</i> (Clean Version) [Electronic Version Only] |
| Agenda Item 13.3 | IAPN 1000 <i>Special Considerations in Auditing Financial Instruments</i> (Electronic Version Only) |
| Agenda Item 13.4 | IAASB <i>Basis for Conclusions: IAPN 1000 Special Considerations in Auditing Financial Instruments</i> [Electronic Version Only] |
| Agenda Item 13.5 | Regulatory Impact Assessment |
| Agenda Item 13.6 | OBPR Approval |
| Agenda Item 13.7 | Australian Accounting Standards on financial instruments |
| Agenda Item 13.8 | AGS 1030 <i>Auditing Derivative Financial Instruments</i> [Electronic Version Only] |

Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|------------|--------------------|--------------------|-----------------------|------------------|---------------|
| 1. | Approve GS 020 | Minuted approval | AUASB | 27 February 2012 | |

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