

EXPOSURE DRAFT

ED 04/19
(March 2019)

Proposed Auditing Standard ASA 2019-X *Amendments to Australian Auditing Standards*

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 25 May 2019. Comments should be addressed to:

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CONTENTS

PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

	<i>Paragraphs</i>
Application	1-2
Operative Date	3
Introduction	
Scope of this Auditing Standard	4
Objective	5
Definition	6
Amendments to Auditing Standards	
Amendments to ASA 200	7-12
Amendments to ASA 210	13-15
Amendments to ASA 230	16-30
Amendments to ASA 250	31-32
Amendments to ASA 260	33-38
Amendments to ASA 300	39-63
Amendments to ASA 500	64-65
Amendments to ASA 540	66
Amendments to ASA 600	67-68
Amendments to ASA 610	69-71
Amendments to ASA 620	72-86
Amendments to ASA 700	87-88
Amendments to ASA 701	89-91
Amendments to ASA 720	92-93

PREFACE

Reasons for Issuing ED 04/19

The AUASB issues exposure draft ED 04/19 of proposed Auditing Standard ASA 2019-X *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

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

Main Proposals

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

ASA 200	<i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i> (Issued October 2009 and amended to December 2018)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to May 2017)
ASA 230	<i>Audit Documentation</i> (Issued October 2009 and amended to December 2018)
ASA 250	<i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> (Issued May 2017)
ASA 260	<i>Communication With Those Charged With Governance</i> (Issued December 2015 and amended to December 2018)
ASA 300	<i>Planning an Audit of a Financial Report</i> (Issued October 2009 and amended to December 2015)
ASA 500	<i>Audit Evidence</i> (Issued October 2009 and amended to December 2018)
ASA 540	<i>Auditing Accounting Estimates and Related Disclosures</i> (Issued December 2018)
ASA 600	<i>Special Considerations-Audits of a Group Financial Report</i> (Issued October 2009 and amended to December 2015)
ASA 610	<i>Using the Work of Internal Auditors</i> (Issued November 2013)
ASA 620	<i>Using the Work of an Auditor's Expert</i> (Issued October 2009)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to December 2018)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Issued December 2015 and amended to December 2018)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) as a result of the issuance of ISQM 1¹, ISQM 2² and ISA 220(revised)³. 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 (ISAs) 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 commencing on or after [date]*.

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2019-X *Amendments to Australian Auditing Standards* by no later than 25 May 2019.

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

1. Do you support the approach and rationale for the proposed implementation periods of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

Australian specific questions

The AUASB is especially interested in stakeholders views on:

2. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
3. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
5. 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 significant costs are expected, the AUASB would like to understand:
 - a. Where those costs are likely to occur;
 - b. The estimated extent of costs, in percentage terms (relative to audit fees); and
 - c. Whether expected costs outweigh the benefits to the users of audit services?
6. Are there any other significant public interest matters that constituents wish to raise?

¹ ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² ISQM 2 *Engagement Quality Reviews*

³ ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*

* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2019-X *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

AUDITING STANDARD ASA 2019-X

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
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 commencing on or after [date]*.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments represent conforming and consequential changes resulting from the issuance of:
 - (a) *ASQM 1 Quality Management for Firms that Perform Audits of Financial Reports and Other Financial Information*;
 - (b) *ASQM 2 Engagement Quality Reviews*; and
 - (c) *ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*
(Issued October 2009 and amended to December 2018)
 - (b) *ASA 210 Agreeing the Terms of Audit Engagements*
(Issued October 2009 and amended to May 2017)
 - (c) *ASA 230 Audit Documentation* (Issued October 2009 and amended to December 2018)
 - (d) *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*
(Issued May 2017)

* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

- (e) *ASA 260 Communication With Those Charged With Governance*
(Issued December 2015 and amended to December 2018)
- (f) *ASA 300 Planning an Audit of a Financial Report*
(Issued October 2009 and amended to December 2015)
- (g) *ASA 500 Audit Evidence* (Issued October 2009 and amended to December 2018)
- (h) *ASA 540 Auditing Accounting Estimates and Related Disclosures* (Issued December 2018)
- (i) *ASA 600 Special Considerations-Audits of a Group Financial Report*
(Issued October 2009 and amended to December 2015)
- (j) *ASA 610 Using the Work of Internal Auditors* (Issued November 2013)
- (k) *ASA 620 Using the Work of an Auditor's Expert* (Issued October 2009)
- (l) *ASA 700 Forming an Opinion and Reporting on a Financial Report*
(Issued December 2015 and amended to December 2018)
- (m) *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report*
(Issued December 2015 and amended to December 2018)
- (n) *ASA 720 The Auditor's Responsibilities Relating to Other Information*
(Issued December 2015)

Definition

6. 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

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

The auditor shall comply with relevant ethical requirements, including those ~~pertaining related~~ to independence, relating to a financial report audit engagement. (Ref: Para. A16–A19)

8. Existing paragraph A19 is amended (including the insertion of a footnote *) to read as follows:

ASQC 1⁹ deals with the firm's responsibilities to ~~establish design, implement and maintain its operate a~~ system of quality control for audit engagements.¹⁰ ~~ASQC 1 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply fulfil~~ their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, ASQM 1 requires the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those ~~pertaining related~~ to independence.¹¹ ASA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence. ~~These include remaining alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.~~¹² ASA 220 recognises that the engagement

~~team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.~~

Footnote * See ASA 220, paragraphs 14–19.

9. Footnotes 9, 10, 11 and 12 in existing paragraph A19 are amended to read as follows:

Footnote 9 See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements.*

Footnote 10 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph ~~23~~.

Footnote 11 See ASQCM 1, paragraphs ~~20–25~~32–33

Footnote 12 ~~See ASA 220, paragraphs 9–12.~~

10. Footnote 15 in existing paragraph A27 is amended to read as follows:

Footnote 15 See ASA 220, paragraph ~~18~~32.

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

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹⁷) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement ~~a firm's quality control procedures for client acceptance and continuance~~. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

12. Existing paragraph A64 has not been amended in-line with the international conforming amendments as the related text has not been carried forward into ASA 200, when issued in Australia.

Amendments to ASA 210

13. Existing footnote 1 in existing paragraph 1 is amended to read as follows:

Footnote 1 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information.*

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

ASQM 1 deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.⁷ The auditor's responsibilities in respect of

relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far as they are within the control of the auditor are dealt with in ASA 220.⁸ This Auditing Standard deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

15. Footnote 8 in existing paragraph A1 is amended to read as follows:

Footnote 8 See ASA 220, paragraphs ~~9–14~~14–19.

Amendments to ASA 230

16. Existing paragraph 3 is amended (including the insertion of a footnote *) to read as follows:

Audit documentation serves a number of additional purposes, including the following:

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ASA 220.²
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of engagement quality control reviews,* other engagement reviews and monitoring activities under the firm's system of quality management inspections in accordance with ASQC 1.^{3,4}
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Footnote * See ASQM 2 Engagement Quality Reviews

17. Footnotes 2, 3 and 4 in existing paragraph 3 are amended as follows:

Footnote 2 See ASA 220 ~~Quality Control~~Management for an Audit of a Financial Report and Other Historical Information, paragraphs ~~15–17~~27–31.

Footnote 3 ~~See ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements, paragraphs 32–33, 35–38 and 48.~~

Footnote 4 ~~[Deleted by the AUASB.]~~

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

Audit documentation provides evidence that the audit complies with the Australian Auditing Standards. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- ...
- ...
- ...

- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - ◆ ...
 - ◆ Similarly, that the engagement partner has taken responsibility for the nature, timing and extent of direction, and supervision and performance of the audit in compliance with engagement team and the review of work performed Australian Auditing Standards may be evidenced in a number of ways within the audit documentation. This may include documentation of that evidences the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in the engagement team discussions required by ASA 315.⁵
- 19. Footnote 5 in existing paragraph A7 is amended to read as follows:

Footnote 5 ~~See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 10.~~
- 20. Existing paragraph A13 is amended to read as follows:

ASA 220 ~~contains requirements and guidance on the~~ requires the auditor to review the audit work performed through review of the audit documentation.⁸ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.
- 21. Footnote 8 in existing paragraph A13 is amended to read as follows:

Footnote 8 See ASA 220, paragraphs ~~47~~28–29.
- 22. Existing paragraph A20 is amended to read as follows:

Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial report to be amended or the auditor to modify the opinion in the auditor's report.¹² The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ASA 220;¹³ ~~with the engagement partner taking final responsibility for the changes.~~
- 23. Footnote 13 in existing paragraph A20 is amended to read as follows:

Footnote 13 See ASA 220, paragraph ~~46~~27.
- 24. Existing paragraph A21 is amended to read as follows:

ASQC 1 requires firms to establish policies ~~and or~~ procedures that require the engagement files to be assembled within an appropriate period of time after the engagement reports have been finalised for the timely completion of the assembly of audit files.¹⁴ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.¹⁵
- 25. Footnotes 14 and 15 in existing paragraph A21 are amended to read as follows:

Footnote 14 See ASQCM 1, paragraph ~~45~~37(f)(i).

Footnote 15 See ASQCM 1, paragraph ~~A54~~A110.
- 26. Existing paragraph A23 are amended to read as follows:

ASQCM 1 requires firms to establish policies ~~and or~~ procedures ~~for the retention of engagement documentation that require the engagement documentation to be retained and maintained to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or other professional standards.~~¹⁶ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the ~~group~~ auditor's report on the group financial report, when applicable.¹⁷

27. Footnotes 16 and 17 in existing paragraph A23 are amended to read as follows:

Footnote 16 See ASQCM 1, paragraph ~~47~~37(f)(ii).

Footnote 17 See ASQCM 1, paragraph ~~A64~~A111.

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

An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities or external parties inspections.~~*

29. Footnote * in existing paragraph A24 is deleted.

Amendments to ASA 230 Appendix 1

30. The second point is amended to read as follows:

- ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information* – paragraphs ~~24-25~~38

Amendments to ASA 250

31. Existing paragraph A25 is amended to read as follows:

In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial report. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph ~~A9A~~49 of ASA 220¹⁴ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

32. Footnote 14 in existing paragraph A25 is deleted.

Amendments to ASA 260

33. Existing paragraph A28 is amended to read as follows:

To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality ~~control~~ reviewer, if one has been appointed, ~~in accordance with ASA 220.~~²³

34. Footnote 23 in existing paragraph A28 is deleted.

Amendments to ASA 260 Appendix 1

35. The heading *Specific Requirements in ASQC 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance* is amended to read as follows:

Specific Requirements in ASQCM 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance

36. The existing first paragraph of Appendix 1 is amended to read as follows:

This appendix identifies paragraphs in ASQCM 1²⁸ and other Australian Auditing Standards that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards

37. Footnote 28 in Appendix 1 is amended to read as follows:

Footnote 28 See ASQCM 1 *Quality ~~Control~~ Management for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, and Other Assurance and Related Services Engagements.*

38. The first point of the appendix is amended to read as follows:

- ASQCM 1 *Quality ~~Control~~ Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance and Related Services Engagements* - paragraph ~~30(a)~~41(c)

Amendments to ASA 300

39. The heading *The Role and Timing of Planning* is deleted.

40. Existing paragraph 2 is amended (including the insertion of a footnote *) to read as follows:

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate Quality management at the engagement level in accordance with ASA 220*, in conjunction with adequate planning in accordance with this ASA, benefits the audit of a financial report in several ways, including the following:

(Ref: Para. A1-A3)

- ...
- ...
- ...

Footnote * See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

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

The auditor shall undertake the following activities at the beginning of the current audit engagement:

- (a) Performing procedures required by ASA 220 regarding the acceptance and continuance of the client relationship and the specific audit engagement;¹
- (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ASA 220;² and
- (c) Establishing an understanding of the terms of the engagement, as required by ASA 210.³ (Ref: Para. A5-A7)

42. Footnote 1 and 2 of existing paragraph 6 are amended to read as follows:

Footnote 1 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~12-13~~20-22.

Footnote 2 See ASA 220, paragraphs ~~9-11~~14-19.

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

In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ASA 220 and:

- (a) ...
- (b) ...
- (c) ...
- (d) ...
- (e) ...

44. Existing paragraph 11 is amended to read as follows:

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work as required by ASA 220.
(Ref: Para. ~~A15-A17~~A16)

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

The auditor shall undertake the following activities prior to starting an initial audit:

- (a) Performing procedures required by ASA 220 regarding the acceptance of ~~the~~ client relationships and ~~the specific~~ audit engagements;⁷ and
- (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)

46. Footnote 7 in existing paragraph 13 is amended to read as follows.

Footnote 7 See ASA 220, paragraphs ~~12-13~~20-22.

47. The following paragraph is inserted before existing paragraph A1:

ASA 220 establishes requirements and provides guidance on the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ASA 220 is relevant to this ASA. For example, in accordance with ASA 220, the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, given the nature and circumstances of the audit engagement. Such a determination is directly relevant when describing the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ASA.

48. Existing paragraph A1 is amended (including the insertion of a footnote *) to read as follows:

The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ASA 220* describes how such techniques and tools may support the engagement partner and the other members of the engagement team in managing the quality of the engagement.

Footnote * See ASA 220, paragraphs A63–A64.

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

The auditor may decide to discuss elements of planning with the entity's management, or those charged with governance, ~~to facilitate the conduct and management of the audit engagement~~ inform quality management at the engagement level (for example, to co-ordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management, or those charged with governance, may compromise the effectiveness of the audit by making the audit procedures too predictable.

50. Existing paragraph A5 is amended to read as follows:

Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~ manage quality at the engagement level in accordance with ASA 220.

51. Existing paragraph A6 is amended to read as follows:

Performing ~~these~~ preliminary engagement activities enables the auditor to plan an audit engagement ~~for which in order to~~, for example:

- ~~The auditor maintains~~ Maintain the necessary independence and ability to perform the engagement.
- ~~There Determine that there~~ are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- ~~There Determine that there~~ is no misunderstanding with the client as to the terms of the engagement.

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

~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, * occurs throughout the audit engagement as conditions and changes in circumstances occur.~~ Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

53. Footnote * in existing paragraph A7 is deleted.

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

The process of establishing the overall audit strategy ~~assists the auditor to determine~~, subject to the completion of the auditor's risk assessment procedures, may include such matters as:

- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas, ~~such as~~. For example, the use deployment of appropriately experienced team members for high risk areas, or the involvement assignment of experts on to address complex matters;
- The amount of resources to be allocated to specific audit areas, ~~such as~~. For example, the number of team members assigned to observe attend the physical inventory count at material multiple locations; the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and
- How such resources are ~~managed, directed and, supervised, such as or used~~. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), ~~and whether to complete engagement quality control reviews.~~

55. The following paragraph is inserted before existing paragraph A9:

ASA 220 contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of the work performed).

56. Existing paragraph A16 is amended (including a new footnote *) to read as follows:

ASA 220* establishes requirements and provides guidance on the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~

- ~~The capabilities and competence of the individual team members performing the audit work.~~

ASA 220 contains further guidance on the direction, supervision and review of audit work.¹⁰

Footnote * See ASA 220, paragraphs 27–29.

57. Footnote 10 in existing paragraph A16 is deleted.

Footnote 10 ~~See ASA 220, paragraphs 15–17.~~

58. The heading *Considerations Specific to Smaller Entities* is deleted.

59. Existing paragraph A17 is deleted.

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

The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit and in managing quality at the engagement level and a means~~ to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

61. Existing paragraph A22 is amended to read as follows:

The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- ...
- ...
- ...
- ~~Other procedures required response designed and implemented by the firm's system of quality control~~ firm for initial audit engagements (for example e.g., the firm's system of quality ~~control~~ management may include responses that require the involvement of another partner or ~~senior individual~~ with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

Amendments to ASA 300 Appendix 1

62. The existing first paragraph is amended to read as follows:

This appendix provides examples of matters the auditor may consider ~~in establishing the overall audit strategy~~ managing quality at the engagement level. Many of these matters will also influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other Auditing Standards, not all matters are relevant to every audit engagement and the list is not necessarily complete.

63. The first point after the heading *Nature, Timing and Extent of Resources* is amended to read as follows:

- The selection human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).

Amendments to ASA 500

64. Existing paragraph A5 is amended to read as follows:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit)⁹ ~~or a firm's quality control procedures for client acceptance and continuance~~ through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

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

As noted in paragraph A5, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, ~~in certain circumstances, a firm's quality control procedures for client acceptance and continuance and~~ through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Amendments to ASA 540

66. Footnote 39 to existing paragraph A61 is amended as follows:

Footnote 39 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~14~~23–24 and ASA 300 *Planning an Audit of a Financial Report*, paragraph 8(e).

Amendments to ASA 600

67. Existing paragraph 4 is amended to read as follows:

In accordance with ASA 220,¹ the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

68. Footnote 1 in existing paragraph 4 is amended to read as follows:

Footnote 1 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report*, paragraphs 14 and 15.

Amendments to ASA 610

69. The amendment proposed to paragraph 34 of ISA 610 has not been included as there is no equivalent paragraph in ASA 610 *Using the Work of Internal Auditors*. Paragraphs 26-35 of ASA 610 have been deleted as they relate to direct assistance, which is not permitted in Australia.
70. Existing paragraph A11 is amended to read as follows:
- Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:
- ...
 - Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as those policies and procedures in ASQC 1~~¹⁶ that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.
71. Footnote 16 in existing paragraph A11 is deleted.
- Footnote 16 ~~*Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (as amended)*~~.

Amendments to ASA 620

72. Footnotes 1 and 2 of existing paragraph 2 are amended to read as follows:
- Footnote 1 See ASA 220 *Quality Control Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraphs ~~A10, A20 A22~~A56.
- Footnote 2 See ASA 500 *Audit Evidence*, paragraphs ~~A34 A48~~A45–A59.
73. Existing paragraph 8 is amended to read as follows:
- The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
- (a) The nature of the matter to which that expert's work relates;
 - (b) The risks of material misstatement in the matter to which that expert's work relates;
 - (c) The significance of that expert's work in the context of the audit;
 - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
 - (e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11-A13)

74. Existing paragraph A6 is amended to read as follows:

If the preparation of the financial report involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit that financial report. The engagement partner is required to be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁶ The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

75. Footnote 5 in existing paragraph A6 is amended to read as follows:

Footnote 5 See ASA 220, paragraph ~~14~~24.

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

The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- ...
- ...
- ...
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

77. The heading *The Auditor's Firm's Quality Control Policies and Procedures* (Ref: Para. 8(e)) is amended to read as follows:

The Auditor's Firm's System of Quality Control Policies and Procedures Management
(Ref: Para. 8(e))

78. Existing paragraph A11 is amended to read as follows:

An auditor's internal expert may be a partner or staff, including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with ASQCM 1.^{9,10} ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, which may share common quality ~~control management~~ management policies ~~and or~~ procedures with the auditor's firm.

79. Footnotes 9 and 10 in existing paragraph A11 are amended to read as follows:

Footnote 9 See ASQCM 1 *Quality ~~Control~~ Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, paragraph ~~12~~19(f).

Footnote 10 See ASA 220, paragraphs ~~23~~ and A4.

80. Existing paragraph A12 is amended (including the insertion of footnotes * and ^) to read as follows:

An auditor's external expert is not a member of the engagement team and is not subject to ~~quality control policies and procedures in accordance with ASQC 1.~~¹¹ ~~In some jurisdictions, however, the firm's system of quality management in accordance with ISQM 1.~~^{*} However, ISQM 1 includes requirements for the firm when the firm intends to obtain or use resources provided by a service provider in performing engagements, which includes the use of an external expert.[^] Relevant ethical requirements or law or regulation may require that an auditor's external expert be treated as a member of the engagement team, and the external expert may therefore be subject to relevant ethical requirements, including those ~~pertaining related~~ to independence, and other professional requirements, as determined by ~~that the~~ relevant ethical requirements or law or regulation.

Footnote * See ASQM 1, paragraph 19(f).

Footnote ^ See ASQM 1, paragraphs 64–65.

81. Footnote 11 in existing paragraph A12 is deleted.

Footnote 11 ~~See ASQC 1, paragraph 12(f).~~

82. Existing paragraph A13 is amended (including the insertion of footnote *) to read as follows:

~~Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.~~¹² ~~The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as~~ As described in ASA 220 (Revised),^{*} quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. The auditor may be able to depend on the firm's related policies or procedures in respect of:

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those ~~pertaining relating~~ to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. ~~Reliance on such training and other firm processes, such as protocols for scoping the work of auditor's internal experts,~~ may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

~~Such reliance~~ Matters that the auditor may take into account when determining whether, and if so, the degree to which, the auditor may depend on the firm's policies or procedures are described in ASA 220. Dependence on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this Auditing Standard.

Footnote * See ASA 220, paragraph A5.

83. Footnote 12 in existing A13 is deleted.

Footnote 12 ~~See ASA 220, paragraph 4.~~

84. Existing paragraph A15 is amended to read as follows:

Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- ...
- ...
- ...
- The auditor's firm's system of quality control policies and procedures management (see paragraphs A11-A13).

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

A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may eliminate or reduce such threats, and may be created by external structures (~~for example e.g.,~~ the auditor's expert's profession, legislation or regulation), or by the auditor's expert's work environment (~~for example, quality control e.g.,~~ the firm's policies and or procedures or the external expert's organisation's policies or procedures). There may also be safeguards specific to the audit engagement.

86. Existing paragraph A26 is amended to read as follows:

When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies and or procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures requirements~~ to which that expert is subject under the firm's system of quality management may include, for example, particular policies and or procedures in relation to that expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies and or procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

Amendments to ASA 700

87. Existing paragraph A61 is amended (including the insertion of footnote *) to read as follows:

~~{Deleted by the AUASB. Refer A61.1}~~

The objective of the firm in ASQM 1* is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of ASQM 1, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

Footnote * See ASQM 1 *Quality Management for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, paragraph 18.

88. Existing paragraph Aus A61.1, including footnote 36, is deleted.

Amendments to ASA 701

89. Existing paragraph A15 is amended to read as follows:

Various Australian Auditing Standards require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ... :
 - ◆ ...
 - ◆ ...
- ASA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on matters where the firm's policies or procedures require consultation, difficult or contentious matters²¹ and other matters that in the engagement partner's professional judgment, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality ~~control~~ reviewer.²²

90. Footnotes 21 and 22 in existing paragraph A15 are amended to read as follows:

Footnote 21 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph ~~18~~32.

Footnote 22 See ASA 220, paragraph ~~19~~33.

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

The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality ~~control~~ reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

Amendments to ASA 720

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

In accordance with ASA 220,¹⁰ the engagement partner is required to take responsibility for the ~~direction, supervision and performance of the audit engagement~~ nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed, and be satisfied that such direction, supervision and review is in compliance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements. In the context of this Auditing Standard, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- ...
- ...
- ...

93. Footnote 10 in existing paragraph A24 is amended to read as follows.

Footnote 10 See ASA 220 *Quality ~~Control~~ Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph ~~1527~~ 1527(a).