



COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ASA 720 and Related Conforming Amendments

Revised Standards	ASA 720
Conforming Amendments	ASAs 210, 230, 260, 450, 500, 510, 560, 580, 600, 700, 701, 705, 706, 710, 810

DATE UPDATED: May 2015

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.

Objective 1:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standard ISA 720.

Proposed modification (1) to revised international standard ISA 720	
<i>Proposed modification</i>	
Where applicable, all illustrative example auditor's reports are to be modified or new reports included, to accommodate the requirements of the <i>Corporations Act 2001</i> .	
Rationale for the proposed modification	
The international standard is not consistent with Australian regulatory arrangements.	The ASA (obviously) does not provide examples that comply with local legislative requirements. As the Auditing Standards are made and enforceable under the Act, it is necessary to include relevant example auditor's reports to clarify obligations.
OR	
The international standard does not reflect principles and practices that are considered appropriate in Australia.	n/a
A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.	Yes. The proposed modifications are not to the requirements, but an enhancement to the Application and Other Explanatory Material – specifically the appendices.
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	There is no conflict or lessening of the ASA requirements merely adaptations to comply with applicable legislation.
B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	n/a

<p>2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)</p>	n/a
<p>3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)</p>	n/a
<p>4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	n/a
<p>5. The proposed modification does not conflict with or result in lesser requirements than the international standard.</p>	n/a
<p>6. The proposed modification overall does not result in the standard being overly complex and confusing.</p>	n/a
<p>7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</p>	n/a
<p>C. Conclusion</p>	
<p>Compelling reasons test met/not met?</p>	<p>The compelling reasons test has been met.</p>
<p>Does the Board agree that the proposed modification meets the compelling reason test, and that ASA 720 should be modified as described above?</p>	

Objective 2:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to **RETAIN** pre-existing “Aus” paragraphs that modified IAASB standards.

Proposed modification (2) to international standard ISA 810	
<i>Proposed modification</i>	
The following existing definitions are additional to, or changed from, ISA 810:	
Aus 4.1	
Summary financial statements means historical financial information that is derived from a financial report, but that contains less detail than the financial report, while still providing a structured representation consistent with that provided by the financial report, of the entity’s economic resources or obligations at a point in time or the changes therein for a period of time. Summary financial statements may include an assertion by those responsible for the summary financial statements. Different jurisdictions may use different terminology to describe such historical financial information. <i>[AUASB comment – ISA definition amended to include an financial report and assertion reference]</i>	
Rationale for the proposed modification	
The international standard is not consistent with Australian regulatory arrangements.	The ISAs are not inconsistent with Australian legislation; however, the Aus definitions are considered necessary to ensure applicability in Australia
OR	
The international standard does not reflect principles and practices that are considered appropriate in Australia.	n/a
A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.	
<u><i>Compelling reason criteria as per agreed Principles of Convergence</i></u>	<u><i>Consideration whether the proposed modification meets the criteria</i></u>
1. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.	Yes. The proposed modification is not to the requirements of the standards, but to a definition and either replace, or are additional to ISA 810 Refer “proposed modification” section above for AUASB comments (above) on the definition.
2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	There is no conflict or lessening of the ISA requirements.

Proposed modification (2) to international standard ISA 810

B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.

<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
3. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	n/a
4. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	n/a
5. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB’s Framework for Audit Quality)	n/a
6. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	n/a
7. The proposed modification does not conflict with or result in lesser requirements than the international standard.	n/a
8. The proposed modification overall does not result in the standard being overly complex and confusing.	n/a
9. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.	n/a

C. Conclusion

Compelling reasons test met/not met?	The compelling reasons test has been met.
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Does the Board agree that retaining the proposed “Aus” paragraph modifications meet the compelling reason test, and that ASA 810 should consequently retain the “Aus” paragraphs?