

Compiled Auditing Standard

ASA 200
(December 2025)

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

This compilation was prepared on 2 December 2025 taking into account amendments made by ASA 2013-2, ASA 2015-1, ASA 2018-1, ASA 2020-2, ASA 2021-3, ASA 2020-1, ASA 2021-5, ASA 2021-1 and AUASB 2025-8.

Compilation Number: 8

Compilation Date: 2 December 2025

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

The most recently compiled versions of Auditing Standards, original Standards and amending Standards (see Compilation Details) are available on the AUASB website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:

PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2025 Commonwealth of Australia. The text, graphics and layout of this Auditing Standard are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the Australian Auditing and Assurance Standards Board (AUASB).

Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Director-National, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Auditing Standard may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

This Auditing Standard reproduces substantial parts of the corresponding International Standard on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC), in the manner described in the statement on Conformity with International Standards on Auditing. The AUASB acknowledges that IFAC is the owner of copyright in the International Standard on Auditing incorporated in this Auditing Standard throughout the world.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only.

Further information and requests for authorisation to reproduce this Auditing Standard for commercial purposes outside Australia should be addressed to the Director-National, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Any decision to approve a request may also require the agreement of IFAC.

ISSN 1833-4393

CONTENTS

COMPILATION DETAILS

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

	<i>Paragraphs</i>
Application	Aus 0.1-Aus 0.2
Operative Date	Aus 0.3
Introduction	
Scope of this Auditing Standard	2
An Audit of a Financial Report	3-9
Effective Date	10
Overall Objectives of the Auditor	11-12
Definitions	13-Aus 13.2
Requirements	
Ethical Requirements Relating to an Audit of a Financial Report	14
Professional Scepticism	15
Professional Judgement	16
Sufficient Appropriate Audit Evidence and Audit Risk	17
Conduct of an Audit in Accordance with Australian Auditing Standards	18-24
Application and Other Explanatory Material	
Definitions	A1-A3
An Audit of a Financial Report	A4-A16
Ethical Requirements Relating to an Audit of a Financial Report	A17-A20
Professional Scepticism	A21-A25
Professional Judgement	A26-A30
Sufficient Appropriate Audit Evidence and Audit Risk	A31-A57
Conduct of an Audit in Accordance with Australian Auditing Standards	A58-A83

COMPILATION DETAILS

Auditing Standard ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (as Amended)

This compilation takes into account amendments made up to and including 12 November 2025 and was prepared on 2 December 2025 by the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASA 200 (October 2009) as amended by other Auditing Standards which are listed in the Table below.

Table of Standards

Standard	Date made	Operative Date
ASA 200	27 October 2009	Financial reporting periods commencing on or after 1 January 2010
ASA 2013-2	11 November 2013	Financial reporting periods commencing on or after 1 January 2014
ASA 2015-1	1 December 2015	Financial reporting periods ending on or after 15 December 2016
ASA 2018-1	5 December 2018	Financial reporting periods commencing on or after 15 December 2019, with early adoption permitted*
ASA 2020-2	30 June 2020	Financial reporting periods ending on or after 15 July 2020
ASA 2021-3	7 September 2021	Financial reporting periods commencing on or after 1 October 2021
ASA 2020-1	3 March 2020	Financial reporting periods commencing on or after 15 December 2021 [#]
ASA 2021-5	5 November 2021	Financial reporting periods commencing on or after 15 December 2021

* Early adoption, in conjunction with ASA 540 *Auditing Accounting Estimates and Related Disclosures*, permitted.

[#] Early adoption, in conjunction with ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, permitted.

Auditing Standard ASA 200***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards***

Standard	Date made	Operative Date
ASA 2021-1	10 March 2021	Financial reporting periods commencing on or after 15 December 2022
AUASB 2025-8	12 November 2025	Financial reporting periods commencing on or after 1 July 2025

Legislation History

Standard	Registration Number	Registration Date	Commencement Date
ASA 200	F2009L04064	10 November 2009	11 November 2009
ASA 2013-2	F2013L01939	14 November 2013	15 November 2013
ASA 2015-1	F2015L02032	16 December 2015	17 December 2015
ASA 2018-1	F2019L00016	3 January 2019	4 January 2019
ASA 2020-2	F2020L00885	7 July 2020	8 July 2020
ASA 2021-3	F2021L01294	17 September 2021	18 September 2021
ASA 2020-1	F2020L00252	13 March 2020	14 December 2021
ASA 2021-5	F2021L01525	8 November 2021	9 November 2021
ASA 2021-1	F2021L00403	1 April 2021	14 December 2022
AUASB 2025-8	F2025L01471	1 December 2025	2 December 2025

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
A17 Footnote 9	Amended	ASA 2013-2 [28]
A72 Footnote 26	Amended	ASA 2013-2 [29]
13(f)	Deleted	ASA 2015-1 [8]
Aus 13.2	Deleted	ASA 2015-1 [9-10]
Aus 13.4	Deleted	ASA 2015-1 [11]
New heading and sub-heading inserted below existing heading “Application and Other Explanatory Material”	Addition	ASA 2015-1 [12] and [13]
Aus 22.1	Deleted	ASA 2015-1 [14]

Auditing Standard ASA 200***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards***

Paragraph affected	How affected	By ... [paragraph]
A1	Addition	ASA 2015-1 [15-16]
A2	Addition	ASA 2015-1 [17-18]
A42	Amended	ASA 2018-1 [7]
A42 Footnote 19	Addition	ASA 2018-1 [7]
A42 Footnote 20	Addition	ASA 2018-1 [7]
A50 Footnote *	Amended	ASA 2018-1 [9]
A64 Footnote *	Amended	ASA 2018-1 [10]
A19	Amended	ASA 2020-2 [19]
A56	Amended	ASA 2021-3 [8]
7	Amended	ASA 2020-1 [9]
13	Amended	ASA 2020-1 [10]
New sub-heading above A3 and A3	Addition	ASA 2020-1 [11-12]
A31 Footnote 17	Amended	ASA 2020-1 [14]
A41	Amended	ASA 2020-1 [15]
A42	Addition	ASA 2020-1 [16]
A43	Amended	ASA 2020-1 [18]
A44	Amended	ASA 2020-1 [19]
A46	Addition	ASA 2020-1 [20]
A55 Footnote 24	Amended	ASA 2020-1 [22]
A64	Amended	ASA 2020-1 [23]
New sub-heading above A69 and A69	Addition	ASA 2020-1 [24]
A70	Amended	ASA 2020-1 [25]
Renumbering of paragraphs	Amended	ASA 2020-1 [26]
A71	Amended	ASA 2020-1 [27]
New sub-heading above A73 and A73	Addition	ASA 2020-1 [28]
A3	Amended	ASA 2021-5 [12]

Auditing Standard ASA 200***Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards***

Paragraph affected	How affected	By ... [paragraph]
A44 Footnote 19	Amended	ASA 2021-5 [13]
A46 Footnote 21	Amended	ASA 2021-5 [14]
A64	Amended	ASA 2021-5 [15]
A69	Amended	ASA 2021-5 [16]
A73	Amended	ASA 2021-5 [17]
14	Amended	ASA 2021-1 [21]
A20	Amended	ASA 2021-1 [22]
Renumbering of Footnote	Amended	ASA 2021-1 [23]
A20 Footnote 9	Amended	ASA 2021-1 [24]
A20 Footnote 10	Amended	ASA 2021-1 [25]
A20 Footnote 11	Amended	ASA 2021-1 [26]
A28 Footnote 16	Amended	ASA 2021-1 [27]
A31	Amended	ASA 2021-1 [28]
A31 Footnote 18	Amended	ASA 2021-1 [29]
Aus 13.1	Amended	AUASB 2025-8 [14]

AUTHORITY STATEMENT

Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (as amended to 12 November 2025) is set out in paragraphs Aus 0.1 to A83.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied.

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following requirement is additional to ISA 200:

Paragraph Aus 23.1 - Where in rare and exceptional circumstances, factors outside the auditors control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:

- (a) If possible, perform appropriate alternative audit procedures; and
- (b) In accordance with ASA 230, document in the working papers:
 - (i) The circumstances surrounding the inability to comply;
 - (ii) The reasons for the inability to comply; and
 - (iii) Justification of how alternative audit procedures achieve the objectives of the requirement.

When the auditor is unable to perform the appropriate alternative audit procedures, the auditor shall consider the requirement in paragraph 24 of this Auditing Standard.

(Ref: Para. A81-Aus A81.1)

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 200 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 200.

AUDITING STANDARD ASA 200

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 27 October 2009.

This compiled version of ASA 200 incorporates subsequent amendments contained in other Auditing Standards made by the AUASB up to and including 12 November 2025 (see Compilation Details).

AUDITING STANDARD ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

Application

Aus 0.1 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.

Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010. [Note: For operative dates of paragraphs changed or added by an Amending Standard, see Compilation Details.]

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the independent auditor's overall responsibilities when conducting an audit of a financial report in accordance with Australian Auditing Standards. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the Australian Auditing Standards, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the Australian Auditing Standards. The independent auditor is referred to as "the auditor" hereafter.
2. Australian Auditing Standards are written in the context of an audit of a financial report by an auditor. They are to be applied as necessary in the circumstances to audits of other historical financial information. Australian Auditing Standards do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the offering of securities to the public. Such responsibilities may differ from those established in the Australian Auditing Standards. Accordingly, while the auditor may find aspects of the Australian Auditing Standards helpful in such circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory or professional obligations.

An Audit of a Financial Report

3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial report. This is achieved by the expression of an opinion by the auditor on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial report is presented fairly, in all material respects, or gives a true and fair view in accordance with the framework. An audit conducted in accordance with Australian Auditing Standards and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A4)
4. The financial report subject to audit is that of the entity, prepared by management of the entity with oversight from those charged with governance. Australian Auditing Standards do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with Australian Auditing Standards is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. The audit of the financial report does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A5-A14)
5. As the basis for the auditor's opinion, Australian Auditing Standards require the auditor to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial report is materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. (Ref: Para. A31-A57)
6. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial report.¹ In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report. Judgements about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial report, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial report as a whole and therefore, the auditor is not responsible for the detection of misstatements that are not material to the financial report as a whole.
7. The Australian Auditing Standards contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The Australian Auditing Standards require that the auditor exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit and, among other things:
 - Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.
 - Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.

¹ See ASA 320 *Materiality in Planning and Performing an Audit*, and ASA 450 *Evaluation of Misstatements Identified during the Audit*.

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

- Form an opinion on the financial report based on conclusions drawn from the audit evidence obtained.
- 8. The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable law or regulation. (Ref: Para. A15-A16)
- 9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the Australian Auditing Standards or by applicable law or regulation.²

Effective Date

10. [Deleted by the AUASB. Refer Aus 0.3]

Overall Objectives of the Auditor

11. In conducting an audit of a financial report, the overall objectives of the auditor are:
- (a) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework; and
 - (b) To report on the financial report, and communicate as required by the Australian Auditing Standards, in accordance with the auditor's findings.
12. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial report, the Australian Auditing Standards require that the auditor disclaim an opinion or withdraw (or resign)³ from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

13. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Applicable financial reporting framework means the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.
- The term "fair presentation framework" means a financial reporting framework that requires compliance with the requirements of the framework and:
- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

² See, for example, ASA 260 *Communication with Those Charged with Governance*; and paragraph 43 of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

³ [Footnote deleted by the AUASB.]

The term “compliance framework” means a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

- (b) Audit evidence means information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial report and other information. For purposes of the Australian Auditing Standards:
 - (i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.
 - (ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
- (c) Audit risk means the risk that the auditor expresses an inappropriate audit opinion when the financial report is materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Aus 13.1 A complete set of financial statements means financial statements and related notes as determined by the requirements of the applicable financial reporting framework. For example, a complete set of financial statements as described in Accounting Standard AASB 101* includes:

- (a) a statement of financial position as at the end of the period;
 - (b) a statement of profit or loss and other comprehensive income for the period;
 - (c) a statement of changes in equity for the period;
 - (d) a statement of cash flows for the period;
 - (e) notes, comprising material accounting policy information and other explanatory information; and
 - (f) comparative information in respect of the preceding period, where applicable; and
 - (g) a statement of financial position as at the beginning of the preceding period, if required.
- (d) 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.
 - (e) Detection risk means the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
 - (f) Financial statements means a structured representation of historical financial information, including disclosures, intended to communicate an entity’s economic

* See AASB 101, *Presentation of Financial Statements*, paragraph 10.

resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by crossreference. (Ref: Para. A1–A2)

Aus 13.2 Financial Report means, for the purpose of the *Corporations Act 2001*,* financial statements for the year or the half-year and notes to the financial statements, and the directors’ declaration about the statements and notes.

Financial Report means, for purposes other than the *Corporations Act 2001*, a complete set of financial statements, and an assertion statement by those responsible for the financial report.

- (g) Historical financial information means information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (h) Management means the person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (i) Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the auditor expresses an opinion on whether the financial report is presented fairly, in all material respects, or gives a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgement, are necessary for the financial report to be presented fairly, in all material respects, or to give a true and fair view.

- (j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted means that management and, where appropriate, those charged with governance have acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with Australian Auditing Standards. That is, responsibility:
 - (i) For the preparation of a financial report in accordance with the applicable financial reporting framework, including where relevant, their fair presentation;
 - (ii) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error, and

* See sections 295 and 303 of the *Corporations Act 2001*.

- (iii) To provide the auditor with:
 - a. Access to all information, of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of a financial report such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management and, where appropriate, those charged with governance, for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, (i) above may be restated as “for the preparation and *fair* presentation of a financial report in accordance with the financial reporting framework”, or “for the preparation of a financial report *that gives a true and fair view* in accordance with the financial reporting framework.”

The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”

- (k) Professional judgement means the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- (l) Professional scepticism means an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- (m) Reasonable assurance means, in the context of an audit of a financial report, a high, but not absolute, level of assurance.
- (n) Risk of material misstatement means the risk that the financial report is materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (Ref: Para. A3)
 - (i) Inherent risk means the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk means the risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s controls.
- (o) Those charged with governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Requirements

Ethical Requirements Relating to an Audit of a Financial Report

14. The auditor shall comply with relevant ethical requirements, including those related to independence, relating to a financial report audit engagement. (Ref: Para. A17-A20)

Professional Scepticism

15. The auditor shall plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated. (Ref: Para. A21-A25)

Professional Judgement

16. The auditor shall exercise professional judgement in planning and performing an audit of a financial report. (Ref: Para. A26-A30)

Sufficient Appropriate Audit Evidence and Audit Risk

17. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (Ref: Para. A31-A57)

Conduct of an Audit in Accordance with Australian Auditing Standards

Complying with Australian Auditing Standards Relevant to the Audit

18. The auditor shall comply with all Australian Auditing Standards relevant to the audit. An Auditing Standard is relevant to the audit when the Auditing Standard is in effect and the circumstances addressed by the Auditing Standard exist. (Ref: Para. A58-A62)
19. The auditor shall have an understanding of the entire text of an Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A63-A72)
20. The auditor shall not represent compliance with Australian Auditing Standards in the auditor's report unless the auditor has complied with the requirements of this Auditing Standard and all other Australian Auditing Standards relevant to the audit. (Ref: Para. Aus A72.1)

Objectives Stated in Individual Auditing Standards

21. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant Australian Auditing Standards in planning and performing the audit, having regard to the interrelationships among the Australian Auditing Standards, to: (Ref: Para. A74-A76)
- (a) Determine whether any audit procedures in addition to those required by the Australian Auditing Standards are necessary in pursuance of the objectives stated in the Australian Auditing Standards; and (Ref: Para. A77)
 - (b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A78)

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

Complying with Relevant Requirements

22. Subject to paragraph Aus 23.1 of this Auditing Standard, the auditor shall comply with each requirement of an Auditing Standard unless, in the circumstances of the audit:

- (a) The entire Auditing Standard is not relevant;
- (b) The requirement is not relevant because it is conditional and the condition does not exist; or (Ref: Para. A79-A80)

23. [Deleted by the AUASB. Refer Aus 23.1]

Aus 23.1 Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:

- (a) If possible, perform appropriate alternative audit procedures; and
- (b) In accordance with ASA 230,* document in the working papers:
 - (i) The circumstances surrounding the inability to comply;
 - (ii) The reasons for the inability to comply; and
 - (iii) Justification of how alternative audit procedures achieve the objectives of the requirement.

When the auditor is unable to perform the appropriate alternative audit procedures, the auditor shall consider the requirement in paragraph 24 of this Auditing Standard.
(Ref: Para. A81-Aus A81.1)

Failure to Achieve an Objective

24. If an objective in a relevant Auditing Standard cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with Australian Auditing Standards, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ASA 230.⁴ (Ref: Para. A82-A83)

* * *

* See ASA 230 *Audit Documentation*, paragraph Aus 12.1.

⁴ See ASA 230 *Audit Documentation*, paragraph 8(c).

Application and Other Explanatory Material

Definitions

Financial statements (Ref: Para. 13(f))

- A1. Some financial reporting frameworks may refer to an entity's economic resources or obligations in other terms. For example, these may be referred to as the entity's assets and liabilities, and the residual difference between them may be referred to as equity or equity interests.
- A2. Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. "Incorporated therein by cross-reference" means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements.

Risk of Material Misstatement (Ref: Para. 13(n))

- A3. For the purposes of the Australian Auditing Standards, a risk of material misstatement exists when there is a reasonable possibility of:
- (a) A misstatement occurring (i.e., its likelihood); and
 - (b) Being material if it were to occur (i.e., its magnitude).

An Audit of a Financial Report

Scope of the Audit (Ref: Para. 3)

- A4. The auditor's opinion on the financial report deals with whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial reports. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable law or regulation may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial report. While the Australian Auditing Standards include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial report, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

Preparation of the Financial Report (Ref: Para. 4)

- A5. Law or regulation may establish the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with Australian Auditing Standards is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility:
- (a) For the preparation of a financial report in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

- (b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error; and
- (c) To provide the auditor with:
- (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
 - (ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
- A6. The preparation of a financial report by management and, where appropriate, those charged with governance requires:
- The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
 - The preparation of a financial report in accordance with that framework.
 - The inclusion of an adequate description of that framework in the financial report.
- The preparation of a financial report requires management to exercise judgement in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgements are made in the context of the applicable financial reporting framework.
- A7. The financial report may be prepared in accordance with a financial reporting framework designed to meet:
- The common financial information needs of a wide range of users (that is, a “general purpose financial report”); or
 - The financial information needs of specific users (that is, a “special purpose financial report”).
- A8. The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorised or recognised standards setting organisation and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:
- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
 - Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organisations;
 - Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organisations;
 - General and industry practices widely recognised and prevalent; and

- Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

Aus A8.1 An applicable financial reporting framework that may be used in preparing a financial report is represented by the Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), and relevant law, such as the *Corporations Act 2001* (the Act) for entities covered by that Act, or other relevant law that may be applicable to other entities.

A9. The requirements of the applicable financial reporting framework determine the form and content of a financial report. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

A10. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards to be used by entities for preparing a general purpose financial report are often designed to achieve fair presentation, for example, Australian Accounting Standards issued by the AASB.

A11. The requirements of the applicable financial reporting framework also determine what constitutes a financial report. In the case of many frameworks, a financial report is intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a financial report* would include a complete set of financial statements# including the related notes, and an assertion statement by those responsible for the financial report. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a financial report:

- [Deleted by the AUASB. Refer Aus A10.1 and Aus A10.2]
- Other examples of a single financial statement, each of which would include related notes, are a:
 - Balance sheet.
 - Statement of income or statement of operations.
 - Statement of retained earnings.
 - Statement of cash flows.
 - Statement of assets and liabilities that does not include owner's equity.
 - Statement of changes in owners' equity.
 - Statement of revenue and expenses.
 - Statement of operations by product lines.
 - Aus A10.1 Statement of financial position.

* See Definitions, paragraph Aus 13.2 of this Auditing Standard.

See Definitions, paragraph Aus 13.1 of this Auditing Standard.

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

- Statement of comprehensive income.
 - Statement of recognised income and expense.
 - Aus A10.2 Under the financial reporting framework defined in the *Corporations Act 2001*[†] and Australian Accounting Standards,[§] a financial report consists of financial statements for the year or the half-year, notes to the financial statements, and the directors' declaration about the statements and notes.
- A12. ASA 210 establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.⁵ ASA 800 deals with special considerations when the financial report is prepared in accordance with a special purpose framework.⁶
- A13. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand that they have the responsibilities set out in paragraph A4 as a precondition for accepting the audit engagement.⁷

Considerations Specific to Audits in the Public Sector

- A14. The mandates for audits of financial reports of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial report of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with law, regulation or other authority.⁸

Form of the Auditor's Opinion (Ref: Para. 8)

- A15. The opinion expressed by the auditor is on whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor's opinion, however, will depend upon the applicable financial reporting framework and any applicable law or regulation. Most financial reporting frameworks include requirements relating to the presentation of the financial report; for such frameworks, preparation of the financial report in accordance with the applicable financial reporting framework includes presentation.
- A16. Where the financial reporting framework is a fair presentation framework, as is generally the case for a general purpose financial report, the opinion required by the Australian Auditing Standards is on whether the financial report is presented fairly, in all material respects, or gives a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial report is prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the Australian Auditing Standards to the auditor's opinion cover both forms of opinion.

Ethical Requirements Relating to an Audit of a Financial Report (Ref: Para. 14)

- A17. [Deleted by the AUASB. Refer Aus A17.1]

[†] See sections 295 and 303 of the *Corporations Act 2001*.

[§] See AASB 101.

⁵ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

⁶ See ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 8.

⁷ See ASA 210, paragraph 6(b).

⁸ See paragraph A59 of this Auditing Standard.

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

- Aus A17.1 The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to audit engagements as defined in ASA 102.*
- A18. [Deleted by the AUASB. See ASA 102]
- A19. [Deleted by the AUASB. See ASA 102]
- A20. ASQM 1⁹ deals with the firm's responsibilities to design, implement and operate a system of quality¹⁰ management that provides the firm with reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with AUASB 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 establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence.¹¹ ASA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence¹². ASA 220 also describes when the engagement team may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.¹³

Professional Scepticism (Ref: Para. 15)

- A21. Professional scepticism includes being alert to, for example:
- Audit evidence that contradicts other audit evidence obtained.
 - Information that brings into question the reliability of documents and responses to enquiries to be used as audit evidence.
 - Conditions that may indicate possible fraud.
 - Circumstances that suggest the need for audit procedures in addition to those required by the Australian Auditing Standards.
- A22. Maintaining professional scepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:
- Overlooking unusual circumstances.
 - Over generalising when drawing conclusions from audit observations.
 - Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.
- A23. Professional scepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to enquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial report amount.

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits or Reviews and Other Assurance Engagements*.

⁹ See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

¹⁰ See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 3.

¹¹ See ASQM 1, paragraph 29.

¹² See ASA 220, paragraphs 16–21.

¹³ See ASA 220, paragraph A10.

- A24. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.¹⁴ In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the Australian Auditing Standards require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.¹⁵
- A25. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional scepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.

Professional Judgement (Ref: Para. 16)

- A26. Professional judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the Australian Auditing Standards and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgement is necessary in particular regarding decisions about:
- Materiality and audit risk.
 - The nature, timing, and extent of audit procedures used to meet the requirements of the Australian Auditing Standards and gather audit evidence.
 - Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the Australian Auditing Standards and thereby, the overall objectives of the auditor.
 - The evaluation of management's judgements in applying the entity's applicable financial reporting framework.
 - The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial report.
- A27. The distinguishing feature of the professional judgement expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgements.
- A28. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by ASA 220,¹⁶ assist the auditor in making informed and reasonable judgements.
- A29. Professional judgement can be evaluated based on whether the judgement reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.

¹⁴ See ASA 500 *Audit Evidence*, paragraphs 7-9.

¹⁵ See ASA 240, paragraph 13; ASA 500, paragraph 11; and ASA 505 *External Confirmations*, paragraphs 10-11 and 16.

¹⁶ See ASA 220, paragraph 35.

- A30. Professional judgement needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgements made in reaching conclusions on significant matters arising during the audit.¹⁷ Professional judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence.

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

- A31. 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 audit¹⁸) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. 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.
- A32. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.
- A33. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.
- A34. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement. ASA 500 and other relevant Australian Auditing Standards establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.

Audit Risk

- A35. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgement, rather than a matter capable of precise measurement.
- A36. For purposes of the Australian Auditing Standards, audit risk does not include the risk that the auditor might express an opinion that the financial report is materially misstated when they are

¹⁷ See ASA 230, paragraph 8.

¹⁸ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16.

not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of a financial report.

Risks of Material Misstatement

A37. The risks of material misstatement may exist at two levels:

- The overall financial report level; and
- The assertion level for classes of transactions, account balances, and disclosures.

A38. Risks of material misstatement at the overall financial report level refer to risks of material misstatement that relate pervasively to the financial report as a whole and potentially affect many assertions.

A39. Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial report at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement. For example, the auditor may make use of a model that expresses the general relationship of the components of audit risk in mathematical terms to arrive at an acceptable level of detection risk. Some auditors find such a model to be useful when planning audit procedures.

A40. The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial report.

A41. Inherent risk is influenced by inherent risk factors. Depending on the degree to which the inherent risk factors affect the susceptibility to misstatement of an assertion, the level of inherent risk varies on a scale that is referred to as the spectrum of inherent risk. The auditor determines significant classes of transactions, account balances and disclosures, and their relevant assertions, as part of the process of identifying and assessing the risks of material misstatement. For example, account balances consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty may be identified as significant account balances, and the auditor's assessment of inherent risk for the related risks at the assertion level may be higher because of the high estimation uncertainty.

A42. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterised by a large number of business failures.

A43. Control risk is a function of the effectiveness of the design, implementation and maintenance of controls by management, or where applicable, those charged with governance, to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial report. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial report, because of the inherent limitations of controls. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The Australian Auditing Standards provide the conditions under which the auditor is required to, or

may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.¹⁹

- A44. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The Australian Auditing Standards typically refer to the “risks of material misstatement” rather than to inherent risk and control risk separately. However, ASA 315²⁰ requires inherent risk to be assessed separately from control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement at the assertion level in accordance with ASA 330.²¹
- A45. ASA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial report and assertion levels.
- A46. Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.²²

Detection Risk

- A47. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.
- A48. Detection risk relates to the nature, timing, and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:
- Adequate planning;
 - Proper assignment of personnel to the engagement team;
 - The application of professional scepticism; and
 - Supervision and review of the audit work performed,
- assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results.
- A49. ASA 300²³ and ASA 330 establish requirements and provide guidance on planning an audit of a financial report and the auditor’s responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

Inherent Limitations of an Audit

- A50. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial report is free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most

¹⁹ See ASA 330 *The Auditor’s Responses to Assessed Risks*, paragraphs 7-17.

²⁰ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

²¹ See ASA 330, paragraph 7(b).

²² See ASA 330, paragraph 6.

²³ See ASA 300 *Planning an Audit of a Financial Report*.

of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

The Nature of Financial Reporting

A51. The preparation of a financial report involves judgement by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial report items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgements that may be made. Consequently, some financial report items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates. Nevertheless, the Australian Auditing Standards require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.²⁴

The Nature of Audit Procedures

- A52. There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:
- There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation of the financial report or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained.
 - Fraud may involve sophisticated and carefully organised schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as, nor expected to be, an expert in the authentication of documents.
 - An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

Timeliness of Financial Reporting and the Balance between Benefit and Cost

A53. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. This is recognised in certain

²⁴ See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 12.

financial reporting frameworks (see, for example, the AASB's Framework for the Preparation and Presentation of Financial Statements).^{*} Therefore, there is an expectation by users of a financial report that the auditor will form an opinion on the financial report within a reasonable period of time and at a reasonable cost, recognising that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

A54. Consequently, it is necessary for the auditor to:

- Plan the audit so that it will be performed in an effective manner;
- Direct audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with correspondingly less effort directed at other areas; and
- Use testing and other means of examining populations for misstatements.

A55. In light of the approaches described in paragraph A51, the Australian Auditing Standards contain requirements for the planning and performance of the audit and require the auditor, among other things, to:

- Have a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels by performing risk assessment procedures and related activities;²⁵ and
- Use testing and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population.²⁶

Other Matters that Affect the Inherent Limitations of an Audit

A56. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

- Fraud, particularly fraud involving senior management or collusion. See ASA 240 for further discussion.
- The existence and completeness of related party relationships and transactions. See ASA 550²⁷ for further discussion.
- The occurrence of non-compliance with laws and regulations. See ASA 250²⁸ for further discussion.
- Future events or conditions that may cause an entity to cease to continue as a going concern. See ASA 570²⁹ for further discussion.
- Relevant Australian Auditing Standards identify specific audit procedures to assist in mitigating the effect of the inherent limitations.

A57. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial report may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards. Accordingly, the subsequent discovery of a material misstatement of the financial report resulting from fraud or

^{*} Issued by the Australian Accounting Standards Board, (June 2014).

²⁵ See ASA 315, paragraphs 13-18.

²⁶ See ASA 330; ASA 500; ASA 520 *Analytical Procedures*; and ASA 530 *Audit Sampling*.

²⁷ See ASA 550 *Related Parties*.

²⁸ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

²⁹ See ASA 570 *Going Concern*.

error does not by itself indicate a failure to conduct an audit in accordance with Australian Auditing Standards. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. Whether the auditor has performed an audit in accordance with Australian Auditing Standards is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in light of the overall objectives of the auditor.

Conduct of an Audit in Accordance with Australian Auditing Standards

Nature of the Australian Auditing Standards (Ref: Para. 18)

- A58. The Australian Auditing Standards, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The Australian Auditing Standards deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.
- A59. The scope, effective date and any specific limitation of the applicability of a specific Auditing Standard is made clear in the Auditing Standard. Unless otherwise stated in the Auditing Standard, the auditor is permitted to apply an Auditing Standard before the effective date specified therein.
- A60. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the Australian Auditing Standards. The Australian Auditing Standards do not override law or regulation that governs an audit of a financial report. In the event that such law or regulation differs from the Australian Auditing Standards, an audit conducted only in accordance with law or regulation will not automatically comply with Australian Auditing Standards.
- A61. The auditor may also conduct the audit in accordance with both Australian Auditing Standards and auditing standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the Australian Auditing Standards relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country.

Considerations Specific to Audits in the Public Sector

- A62. The Australian Auditing Standards are relevant to engagements in the public sector. The public sector auditor's responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of a financial report in accordance with the Australian Auditing Standards. These additional responsibilities are not dealt with in the Australian Auditing Standards. They may be dealt with in guidance developed by government audit agencies.

Contents of the Australian Auditing Standards (Ref: Para. 19)

- A63. In addition to objectives and requirements (requirements are expressed in the Australian Auditing Standards using "shall"), an Auditing Standard contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the Auditing Standard, and definitions. The entire text of an Auditing Standard, therefore, is relevant to an understanding of the objectives stated in an Auditing Standard and the proper application of the requirements of an Auditing Standard.
- A64. Where necessary, the application and other explanatory material provides further explanation of the requirements of an Auditing Standard and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover, including in some Auditing Standards such as ASA 315, why a procedure is required.
- Include examples of procedures that may be appropriate in the circumstances. In some Auditing Standards, such as ASA 315, examples are presented in boxes.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an Auditing Standard. The application and other explanatory material may also provide background information on matters addressed in an Auditing Standard.

- A65. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related Auditing Standard or within the title and introduction of the appendix itself.
- A66. Introductory material may include, as needed, such matters as explanation of:
- The purpose and scope of the Auditing Standard, including how the Auditing Standard relates to other Auditing Standards.
 - The subject matter of the Auditing Standard.
 - The respective responsibilities of the auditor and others in relation to the subject matter of the Auditing Standard.
 - The context in which the Auditing Standard is set.
- A67. An Auditing Standard may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the Australian Auditing Standards. These are provided to assist in the consistent application and interpretation of the Australian Auditing Standards, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the Australian Auditing Standards. The AUASB Glossary* contains a complete listing of terms defined in the Australian Auditing Standards. It also includes descriptions of other terms found in Australian Auditing Standards to assist in common and consistent interpretation and translation.
- A68. When appropriate, additional considerations specific to audits of smaller entities and public sector entities are included within the application and other explanatory material of an Auditing Standard. These additional considerations assist in the application of the requirements of the Auditing Standard in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the Australian Auditing Standards.

Scalability Considerations

- A69. Scalability considerations have been included in some Auditing Standards (e.g., ASA 315), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the characteristics in paragraph A71 may apply.
- A70. The “considerations specific to smaller entities” included in some Australian Auditing Standards have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.

* Issued by the Auditing and Assurance Standards Board (September 2018).

- A71. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:
- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
 - (b) One or more of the following:
 - (i) Straightforward or uncomplicated transactions;
 - (ii) Simple record-keeping;
 - (iii) Few lines of business and few products within business lines;
 - (iv) Simpler systems of internal controls;
 - (v) Few levels of management with responsibility for a broad range of controls; or
 - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

- A72. The Australian Auditing Standards refer to the proprietor of a smaller entity who is involved in running the entity on a day-to-day basis as the “owner-manager.”

- Aus A72.1 When the auditor conducts the audit in accordance with Australian Auditing Standards and International Standards on Auditing (“ISAs”), in accordance with ASA 700 the auditor’s report is required to refer to the audit having been conducted in accordance with the Australian Auditing Standards and the ISAs only when the auditor has complied fully with all of the Australian Auditing Standards and ISAs relevant to the audit. (Ref: Para 20)

Considerations Specific to Automated Tools and Techniques

- A73. The considerations specific to “automated tools and techniques” included in some Auditing Standards (for example, ASA 315) have been developed to explain how the auditor may apply certain requirements when using automated tools and techniques in performing audit procedures.

Objectives Stated in Individual Auditing Standards (Ref: Para. 21)

- A74. Each Auditing Standard contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual Auditing Standards serve to focus the auditor on the desired outcome of the Auditing Standard, while being specific enough to assist the auditor in:
- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
 - Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.
- A75. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this Auditing Standard. As with the overall objectives of the auditor, the ability to achieve an individual objective is equally subject to the inherent limitations of an audit.

- A76. In using the objectives, the auditor is required to have regard to the interrelationships among the Australian Auditing Standards. This is because, as indicated in paragraph A55, the Australian Auditing Standards deal in some cases with general responsibilities and in others, with the application of those responsibilities to specific topics. For example, this Auditing Standard requires the auditor to adopt an attitude of professional scepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each Auditing Standard. At a more detailed level, ASA 315 and ASA 330 contain, among other things, objectives and requirements that deal with the auditor's responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An Auditing Standard dealing with specific aspects of the audit (for example, ASA 540) may expand on how the objectives and requirements of such Australian Auditing Standards as ASA 315 and ASA 330 are to be applied in relation to the subject of the Auditing Standard but does not repeat them. Thus, in achieving the objective stated in ASA 540, the auditor has regard to the objectives and requirements of other relevant Australian Auditing Standards.

Use of Objectives to Determine Need for Additional Audit Procedures (Ref: Para. 21(a))

- A77. The requirements of the Australian Auditing Standards are designed to enable the auditor to achieve the objectives specified in the Australian Auditing Standards, and thereby the overall objectives of the auditor. The proper application of the requirements of the Australian Auditing Standards by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements vary widely and all such circumstances cannot be anticipated in the Australian Auditing Standards, the auditor is responsible for determining the audit procedures necessary to fulfil the requirements of the Australian Auditing Standards and to achieve the objectives. In the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the Australian Auditing Standards to meet the objectives specified in the Australian Auditing Standards.

Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 21(b))

- A78. The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21(b):

- Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other Australian Auditing Standards;
- Extend the work performed in applying one or more requirements; or
- Perform other procedures judged by the auditor to be necessary in the circumstances.

Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by Australian Auditing Standards to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

Complying with Relevant Requirements

Relevant Requirements (Ref: Para. 22)

- A79. In some cases, an Auditing Standard (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ASA 610³⁰ is relevant.
- A80. Within a relevant Auditing Standard, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the condition exists. In general, the conditionality of a requirement will either be explicit or implicit, for example:
- The requirement to modify the auditor's opinion if there is limitation of scope³¹ represents an explicit conditional requirement.
 - The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance,³² which depends on the existence of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework,³³ which depends on that framework requiring or permitting such disclosure, represent implicit conditional requirements.

In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the auditor may be required to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation, or the auditor may be required to do something, unless prohibited by law or regulation. Depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit.

Inability to Comply with a Requirement (Ref: Para. Aus 23.1)

- A81. ASA 230 establishes documentation requirements in those rare and exceptional circumstances where the auditor is unable to comply with a relevant requirement.³⁴ Australian Auditing Standards do not call for compliance with a requirement that is not relevant in the circumstances of the audit.
- Aus A81.1 Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement, compliance with Australian Auditing Standards can still be represented provided the auditor has complied with the requirements of paragraph Aus 23.1.

Failure to Achieve an Objective (Ref: Para. 24)

- A82. Whether an objective has been achieved is a matter for the auditor's professional judgement. That judgement takes account of the results of audit procedures performed in complying with the requirements of the Australian Auditing Standards, and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the Australian Auditing Standards. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:

³⁰ See ASA 610 *Using the Work of Internal Auditors*, paragraph 2.

³¹ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13.

³² See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 9.

³³ See ASA 501 *Audit Evidence—Specific Considerations for Inventory and Segment Information*, paragraph 13.

³⁴ See ASA 230, paragraph 12.

Auditing Standard ASA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards

- Prevent the auditor from complying with the relevant requirements of an Auditing Standard.
- Result in its not being practicable or possible for the auditor to carry out the additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21, for example due to a limitation in the available audit evidence.

A83. Audit documentation that meets the requirements of ASA 230 and the specific documentation requirements of other relevant Australian Auditing Standards provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.