Applying the standards

MODULE 1 | 1.4 | STUDENT COMPANION

The auditing standards are grouped by number and all follow one pattern, and an auditor must comply with **every relevant standard**. The **same standards apply to every entity**, with the work scaled to its size and complexity. **The law, not the standards, decides who needs an audit or a review.** Auditors-General apply the standards in the public sector, and the review, assurance and related services standards complete the family, with some Australian additions.

How the auditing standards are organised



Through the audit: 200s to 700s. Specialised engagements: 800s



Requirements are the sentences containing 'shall'; the application material explains how to carry them out

Where the authority comes from

- **Comply with all of them.** The standard on overall objectives requires the auditor to comply with every standard relevant to the audit; claiming compliance with the standards means complying with all the relevant ones.
- **Use the objectives.** Each standard's objective helps the auditor judge whether more work is needed to achieve the overall aim of the audit.
- **Departures are rare.** Only in exceptional circumstances may an auditor depart from a relevant requirement, and then only by doing alternative procedures that achieve its aim, with the reasons documented.
- **Law comes first.** No standard overrides local law. In Australia, auditing standards made under the Corporations Act are themselves legally enforceable for audits and reviews under that Act.

Same standards, scaled work

What stays the same

- The objective: reasonable assurance and an opinion
- Understanding the entity and assessing the risks
- Sufficient appropriate evidence
- The ethical requirements, including independence

What scales with size and complexity

- The amount and form of the work: simpler transactions, fewer controls and fewer people
- Less time to understand the entity, a simpler plan and briefer documentation
- Specific guidance for smaller entities in many standards
- Some standards may not apply: no internal audit function, or only one entity, not a group

The owner-manager

Often the strongest control, because nothing happens without them, and the biggest risk, because nobody else can stop them overriding the controls

Proportionality in practice. A small entity's audit still aims for reasonable assurance, but the auditor may rely more on substantive testing than on controls, and some standards simply won't be relevant, such as the standard on using internal auditors when there is no internal audit function. The owner-manager's dominance calls for particular attention to the risk of management override.

Who must be audited or reviewed in Australia

These are the thresholds this lesson uses. The charity thresholds apply from 1 July 2022.

Entity	Size test	Requirement
Large proprietary company	Meets at least two of: consolidated revenue of $50 million or more; consolidated gross assets of $25 million or more; 100 or more employees	Audit of the financial report
Small proprietary company	Meets fewer than two of those tests	Generally none, unless, for example, shareholders with enough shares request one or ASIC directs it
Company limited by guarantee	Tiered by revenue	Smallest: neither; middle band: review instead of audit allowed; largest: audit
Incorporated association	Tiers under state and territory laws	Differs from place to place
Registered charity: small	Annual revenue under $500,000	No review or audit
Registered charity: medium	Annual revenue from $500,000 to under $3 million	Review or audit
Registered charity: large	Annual revenue of $3 million or more	Audit

Lighter reporting too. The Australian standard on simplified disclosures lets entities in the second tier of financial reporting prepare general purpose financial statements with far fewer disclosures.

Case note: raising the charity thresholds

Charities registered with the Australian Charities and Not-for-profits Commission are classified by annual revenue, and their size decides what they must report and what assurance they need. From 1 July 2022 the thresholds were raised: a small charity now has revenue under $500,000; a medium charity, from $500,000 up to $3 million; and a large charity, $3 million or more. Before the change the cut-offs were $250,000 and $1 million, so many charities moved into a lighter tier at once. The aim was to cut red tape for smaller charities while keeping full audits where the most money is at stake: proportionality decided by lawmakers, then applied by auditors.

Source: Australian Charities and Not-for-profits Commission Act 2012, as amended in 2022; ACNC guidance on charity size.

Three tiers for registered charities



Registered charities, from 1 July 2022. The thresholds were raised to cut red tape for smaller charities while keeping full audits where the most money is at stake.

The public sector

Governments must control public spending, so audit offices check that public money is spent as Parliament authorised and that public entities report reliably. The Commonwealth **Auditor-General** is independent of the government of the day and answers to Parliament, supported by the Australian National Audit Office; the office audits Commonwealth entities' financial statements and conducts performance audits of how well programs are run. Each state and territory has its own Auditor-General. Public sector auditors usually have legal powers that private sector auditors lack, such as the right to access information held by government agencies.

The rest of the family

Family	International standards	Australian notes
Reviews	ISRE 2400 (Revised): by a practitioner who isn't the auditor. ISRE 2410: interim information reviewed by the entity's own auditor, e.g. a half-year review	ASRE 2400 and ASRE 2410, plus ASRE 2415, designed for companies limited by guarantee and registered charities

Family	International standards	Australian notes
Other assurance	ISAE 3000 (Revised), the umbrella standard for everything else, with ISAE 3400 (prospective information), 3402 (service organisation controls) and 3420 (pro forma information in a prospectus)	ASAE equivalents, plus Australian-only standards such as those on compliance, controls and performance engagements
Sustainability assurance	ISSA 5000 (sustainability information, including greenhouse gas emissions) replaces ISAE 3410 for periods beginning on or after 15 December 2026	ASSA 5000; ASSA 5010 sets the timeline for Corporations Act sustainability reports
Related services (no assurance)	ISRS 4400 (Revised): agreed-upon procedures. ISRS 4410 (Revised): compilations	The professional standard for compilations is issued by the APESB, not the AUASB
Preamble standard	None	ASA 101 (which absorbed ASA 100) says which AUASB standards are made under the Corporations Act and which are for other purposes, which matters for enforcement

Practice questions

MODULE 1 | 1.4 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Which group of standards?

Place each topic in the group of auditing standards that deals with it.

Topic	Group (200s, 300s and 400s, 500s, 600s, 700s or 800s)
(a) Using a valuer engaged by the auditor to value land and buildings	
(b) Setting materiality when planning the audit	
(c) Including key audit matters in the auditor's report	
(d) The auditor's responsibilities relating to fraud	
(e) Sending confirmation requests to a client's customers	
(f) Auditing financial statements prepared for a lender under a special purpose framework	
(g) Evaluating the misstatements identified during the audit	
(h) Communicating with those charged with governance	

Question 2 - Audit, review or neither?

Using the thresholds in this lesson, decide whether each entity needs an audit, a review, or neither.

Entity (all imagined)	Audit, review or neither? Why?
(a) Marramba Freight Pty Ltd: consolidated revenue $38 million, consolidated gross assets $31 million, 112 employees	
(b) Dunmore Electrical Pty Ltd: consolidated revenue $57 million, consolidated gross assets $12 million, 64 employees; no shareholder has asked for an audit and ASIC hasn't directed one	
(c) Riverlight Youth Mentoring, a registered charity with annual revenue of $500,000	
(d) Hopewell Animal Rescue, a registered charity with annual revenue of $3.2 million	

Question 3 - Explaining proportionality to an owner-manager

Saddleworth Signs Pty Ltd (imagined) makes shop signs. It has 30 employees and one bank account, and its owner approves every payment. Its bank now requires an audit, and the owner asks: 'Will my audit be the same as a listed company's?' Explain how the audit of the business differs from the audit of a listed company, and what stays exactly the same.

Worked answers

MODULE 1 | 1.4 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Groups of standards

Topic	Group	Standard
(a) Valuer engaged by the auditor	600s: using the work of others	ISA 620
(b) Materiality in planning	300s and 400s: risk	ISA 320
(c) Key audit matters	700s: conclusions and reporting	ISA 701
(d) Fraud	200s: general principles and responsibilities	ISA 240
(e) Confirmation requests	500s: audit evidence	ISA 505
(f) Special purpose framework	800s: specialised areas	ISA 800
(g) Evaluating misstatements	300s and 400s: risk	ISA 450
(h) Those charged with governance	200s: general principles and responsibilities	ISA 260

Question 2 - Who needs what

Entity	Answer	Reason
(a) Marramba Freight	Audit	Large: it meets two tests (assets of $25 million or more and 100 or more employees), even though revenue is under $50 million
(b) Dunmore Electrical	Generally neither	Small: it meets only the revenue test. An audit would be needed if enough shareholders asked or ASIC directed one
(c) Riverlight	Review or audit	Medium: $500,000 is the bottom of the medium band, not the top of the small one
(d) Hopewell	Audit	Large: revenue of $3 million or more

Question 3 - Saddleworth Signs (sample answer)

- **Exactly the same:** the objective (reasonable assurance and an opinion), the requirement to follow every relevant auditing standard, the ethical rules including independence, understanding the business and assessing risks, materiality, and the need for sufficient appropriate evidence, documented.
- **Less of it, and simpler:** with one bank account and few types of transaction, understanding the business takes less time, the plan is simpler and the documentation briefer.
- **Different mix of evidence:** with few formal controls, the auditor will rely mainly on substantive testing, such as confirming the bank balance and testing payments and sales directly.
- **Some standards won't apply:** for example those on using internal auditors (there is no internal audit function) and on group audits (there is only one company). Key audit matters, required for listed companies, won't appear in the report.
- **The owner is both strength and risk:** approving every payment is a strong control, but nobody can stop the owner overriding it, so the auditor plans procedures for management override.