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9 January 2006

Ms Merran Kelsall
Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

By email: edcomments@AUASB.gov.au

Dear Merran

Re: Comments on Group 3 Exposure Drafts of Proposed Auditing Standards issued by the Auditing and Assurance Standards Board (AUASB)

Thank you for the opportunity to comment on the following Exposure Drafts (EDs) of proposed Auditing Standards issued by the AUASB on the 16 November 2005:

- **Exposure Draft ED 24/05**, Proposed Auditing Standard: The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A.
- **Exposure Draft ED 25/05**, Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702) Part B.
- **Exposure Draft ED 26/05**, Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518).

CPA Australia has considered the above EDs and articulates its general comments in this letter. Technical comments for the individual EDs are appended. For each comment, CPA Australia has also provided suggestions for the AUASB's consideration. This letter is in addition to the letter dated 15 December 2005 submitted jointly by CPA Australia, BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG, PKF, PricewaterhouseCoopers, The Institute of Chartered Accountants in Australia and the National Institute of Accountants.

CPA Australia is generally supportive of ED 24/05 and ED 25/05 and the AUASB proposed usage of the International Standard of Auditing (ISA) 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," and ISA 701, "Modifications to the Independent Auditor's Report," as the basis for re-drafting AUS 702, "The Audit Report on a General Purpose Financial Report".

CPA Australia also compliments the AUASB on the provision of an explanatory guide for the proposed new reporting standards. The explanatory guide has facilitated CPA Australia's consideration of ED 24/05 and ED 25/05. In view of the significant changes proposed in these EDs compared to the equivalent reporting standard currently in place, CPA Australia recommends that the AUASB consider translating this explanatory guide to an AUASB pronouncement proper (such as an *Audit and Assurance Guide*). This pronouncement will accompany the implementation of the new legally enforceable Auditing Standards on 1 July 2006.

In addition, it is suggested that consideration be given to the inclusion of additional guidance relating to the usage of "emphasis of matter" paragraphs in auditor's report. Although a table to such effect is provided in Appendix 1 of ED 25/05, the prime importance of such paragraphs to an audit particularly to highlight uncertainties means it is important for auditors to have a common understanding as to their usage. The importance of these two Auditing Standards is also evident in the 16 November 2005 media release issued by the AUASB.

We hope the comments provided will be helpful to the AUASB's continued development of statutory Auditing Standards in Australia. Should there be any questions regarding this submission, please do not hesitate to contact Jessie Wong, CPA Australia's Technical Adviser, Financial Reporting and Governance on +61 3 9606 3902 or by email: jessie.wong@cpaaustralia.com.au

Yours sincerely

Geoff Rankin FCPA
Chief Executive

cc: K Lewis
J Knott

APPENDIX

Paragraph Number in Proposed ED (Line Number)	Status (Requirement, Guidance, Footnote or Appendix)	Comment(s)	Suggestion(s)
Exposure Draft ED 24/05			
Proposed Auditing Standard: The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A			
18 (1)	Guidance	Implied obligation more appropriately linked to the mandatory requirement in paragraph 8.	Consider amending as follows: "Pursuant to paragraph 8 of this Auditing Standard, ..."
19	Guidance	Item 12 in the "Table of proposed changes" proposes for bullet points to be added to paragraph 19. This change is not evident in the paragraph in the ED.	-
50 (4)	Guidance	Minor editorial.	Amend as follows: "For example, the auditor may be asked..."
53	Requirement	Paragraph 20 and 21 in Appendix 2 list the <i>Corporations Act 2001</i> requirements for the financial report to be "signed by a director of the audit company (or the lead auditor or review auditor for the auditor) both in the audit company's name and in his or her own name." Guidance should be added on the above requirements to clarify the auditor's obligations in order to comply with the mandatory requirement in paragraph 8. This is consistent with the proposed changes made to the ED for example, paragraph 10, 26, 50 and 57.	Consider adding a paragraph as follows: "The auditor's report on a financial report prepared pursuant to the Corporations Act 2001 is required by the Act to be signed by a director of the audit company (or the lead auditor or review auditor for the auditor) both in the audit company's name and in his or her own name."
54 (6)	Requirement	Reference to "recognised authority" inconsistent with the remainder of the ED. Consider replacing with "those charged with governance" to ensure consistency with paragraph 33 and 56.	Consider amending as follows: "...the entity's financial report has been prepared and that those with the recognised authority charged with governance have asserted that they have taken responsibility for it."

Appendix 2	Footnote	Minor editorial.	Comma needed between footnote 17 and 18.
Exposure Draft ED 25/05			
Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702) Part B			
9 (2)	Requirement	The reason for the proposed change of existing ISA wording "material matters" to "significant uncertainty" is not clear in the ED or the "Table of Proposed Changes". The proposed change potentially creates an inconsistency between ED 23/05, "Going Concern" and this ED. Mandatory requirements in ED 23/05 uses the phrase "material uncertainty".	Consider reverting to existing ISA wordings.
9 (3)	Requirement	The mandatory requirement refers to a "going concern problem". Accompanying guidance then refers the reader to AUS 708 for related mandatory requirements and explanatory guidance. Apart from Appendix 1 of ED 23/05 (AUS 708), the phrase "going concern problem" does not appear elsewhere in the standard. Given "going concern problem" is contained in a black-letter requirement, clarification of its meaning is warranted.	Consider providing guidance to explain a "going concern problem". Consideration should be given to the definition of "going concern basis" currently contained in AUS 708 and the Glossary. In addition, the definition should also give consideration to the need for the exercise of professional judgement in the auditor's identification of a "going concern problem".
25 (7)	Requirement	The mandatory requirement includes a new reference to the "basis for modification" paragraph. Apart from the illustrative examples provided in the appendices, the Auditing Standard does not currently provide further guidance on or definition of such paragraphs.	Consider expansion of guidance paragraph 26 to make specific references to the "basis for modification" paragraph. Refer to the second paragraph in the fourth point of the "Main changes" section. This would constitute an ISA plus effort.
29-36	Requirement	The mandatory requirement in paragraph 25 requires that in the event matters subject to qualification are incapable of quantification, a statement to that effect and the reasons therefore shall be include in the basis for modification paragraph of the auditor's report. This is an ISA+ requirement. In view of this additional requirement, related guidance should be added to those mandatory requirements which relate to the auditor's expression of an "other than qualified opinion".	Consider adding guidance on the ISA+ requirement in paragraph 25 where appropriate, to the mandatory requirements in the section "Circumstances that may Result in Other than an Unqualified Opinion".
31 (4)	Requirement	Reference to the "financial statements" should instead refer to the "financial report".	Consider amending as follows: "... indicate the possible adjustments to the financial statements

			<u>report</u> that might have been determined to be necessary ...”
34 (18)	Requirement	Minor editorial.	Amend as follows: “.. the auditor shall apply the mandatory requirements in paragraph 15.”
37 (Dot point 4)	Guidance	The reader is referred to ED 24/05 (AUS 702, Part A) for reporting responsibilities additional to those listed in ED 25/05 (AUS 702, Part B). It is noticed that an equivalent of guidance paragraph 10 in ISA 701 is absent in ED 25/05. It is not clear the reasons for its exclusion. A further concern is also whether an auditor is able to claim ISA-compliant if due to the restrictions of ED 25/05, the auditor does not report significant matters because they do not affect the financial report.	Consider re-instating the explanatory guidance in ISA 701.
Appendix 1	-	Arrows in the diagram, “Terminology Used in This Auditing Standard” require clarification.	Consider labelling the arrows in the diagram.
Appendix 1	-	Reference to AUS 702 to include the appropriate part of the Auditing Standard.	Amend as follows: “Refer AUS 702 (<u>Part A</u>)”
Appendix 1	Footnote 1	The word “extreme” first appears in paragraph 14 of the ED. It is appropriate for the word to be defined in the first instance it is being used.	Consider adding a similar footnote to paragraph 14 or alternatively cross-reference paragraph 14 to the definition for “extreme” in the appendix. It is considered that option one is the preferred option.
Appendix 2	-	Minor editorial.	Remove quotation marks for the “Significant Uncertainty Regarding Litigation” paragraph.
Exposure Draft ED 26/05 Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)			
12 (1)	Requirement	Minor editorial.	Amend as follows: “Based on the auditor’s knowledge of the business and enquiries <u>inquiries</u> of management, ...”
37(8), 38 (6)	Requirement	Reference to AUS 702 to include the appropriate part of the Auditing Standard.	Amend as follows: “... in accordance with AUS 702 (<u>Part B</u>) “Modifications to the Independent Auditor’s Report”, ...”

37 (8)	Requirement	Terminology relating to the opinion issued by the auditor used in the existing Aus 702 needs to be updated in view of the proposed changes in ED 24/05 and ED 25/05.	Amend as follows: “...express an “except for” <u>a qualified opinion or a disclaimer of an inability to form an</u> opinion on the basis of a limitation on the scope of the audit.”
38 (7)	Requirement	Terminology relating to the opinion issued by the auditor used in the existing Aus 702 needs to be updated in view of the proposed changes in ED 24/05 and ED 25/05.	Amend as follows: “...the auditor shall, in accordance with AUS 702, express an “except for” <u>a disclaimer of opinion or an adverse opinion.</u> ”