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Our ref PA\_CH\_Auditing  
Standards\_Exposure Drafts Group  
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15 December 2005

Dear Ms Kelsall

### **Exposure Drafts Group 2 - EDs 6/05 to ED 23/05 (“the EDs”)**

We are pleased to have the opportunity to comment on the above Exposure Drafts issued by the Auditing and Assurance Standards Board (AUASB) and appreciate the efforts of the Board and its staff in developing and issuing these EDs in such a tight timeframe.

We have also been involved in the second joint submission from the Auditing Standards Response Group (“ASRG”) on the EDs and confirm our support for the recommendations contained in the letter to the AUASB dated 15 December 2005.

We would however, like to take this opportunity to emphasise those matters which we consider are the most important for the AUASB to address and provide further detailed comments.

### **Documentation**

It is critical to the overall objectives of the rewrite process that the documentation requirements are clearly stated in the Standards to avoid any misinterpretation.

The draft Preamble addresses these requirements in relation to the Mandatory Requirements. We recommend that documentation in relation to the Explanatory Guidance is also addressed, principally in relation to those paragraphs using the word “ordinarily.” This could be achieved simply by including a statement in the definition of the word “ordinarily” in the Preamble to the effect that no documentation of departures is required.

In addition we consider that these documentation requirements should also be incorporated in ED 11/05 “Audit Documentation.”



### **Applicability to “other” engagements**

The Preamble (which now encompasses all AUASB Standards) and EDs 8 and 9 contain Mandatory Requirements that are not appropriate for Special Purpose Financial Reports or engagements where the Standards will not have the force of law. For example, the definition of the word “Shall” in the Preamble refers to the creation of a legally binding obligation. However, it would not be appropriate for such an obligation to be inadvertently created in relation to engagements which are not subject to legislation requiring legally enforceable standards.

Our detailed comments and suggestions on these issues and other areas for the AUASB to consider are included in the attached appendix to this letter.

We would be pleased to discuss our comments with members of the AUASB or its staff. If you wish to do so, please contact me on 02 9335 7108.

Yours sincerely

Chris Hall  
Partner

**Exposure Draft – ED 6/05 “Foreword to AUASB Pronouncements”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>41</b>	We recognise the timeframe that the AUASB is currently working under and concur with the decision to shorten the exposure draft period to 45 days for phase one of the rewrite process. However, once these standards are issued, we believe that it would be appropriate for the exposure period to be 60 to 90 days (30 days less than for International Standards on Auditing)	Amend paragraph 41 to refer to 60 to 90 days as phase one of the rewrite process will be completed when these standards are effective. Therefore there is no need to include 45 days.
<b>2</b>	<b>47</b>	The first sentence may have the unintended interpretation that comments are only sought from invited parties	Revise the paragraph to read  <i>“... with any interested party invited to make a submission to the AUASB.”</i>

**Exposure Draft – ED 7/05 “Preamble to AUASB Standards”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>23</b>	When an Auditing Standard <b>may be</b> used	Change the wording to:  <i>“When an Auditing Standard is used ...”</i>
<b>2</b>	<b>25 (b)</b>	It should not be a requirement that the standards only apply to those engagements when performed by an external auditor. For example they may be performed by an independent accountant.	Change the wording to:  <i>“... conducted by external parties.”</i>
<b>3</b>	<b>26</b>	This paragraph is contrary to	Suggest removing this paragraph

		paragraph 25 (a) with respect to neutrality of size	
<b>4</b>	<b>34</b>	It is unclear how the application paragraphs assist the auditor to determine compliance with International Standards	Suggest removal of the words “... <i>application and</i> ...”
<b>5</b>	<b>39</b>	This paragraph appears out of place	Move the paragraph to follow existing paragraph 14
<b>6</b>	<b>44-46</b>	To the extent that this section has ongoing relevance it should be incorporated either in the Foreword or elsewhere within the Preamble	Consider deleting these paragraphs ensuring that any content with ongoing significance is included in the Foreword or Preamble as appropriate
<b>7</b>	<b>47 (d)</b>	The definition does not make reference to the exceptions allowed by paragraph 11 or the inability to comply in paragraph 39	Amend definition to make reference to these situations where the mandatory requirements are not applied
<b>8</b>	<b>47 (e)</b>	We believe it is essential there is total clarity that the auditor is not required to document a rationale for not performing a procedure where the word “ordinarily” is included in the paragraph	Supplement the definition with the words at the end:  <i>“Where the auditor does not believe the noted circumstances apply or the suggested actions, procedures, inquiries etc. are appropriate; there is no need to document the rationale for this conclusion.”</i>
<b>9</b>	<b>47 (h)</b>	It is only appropriate to refer to legally binding in the definition for those engagements where the force of law is applicable	Consider revising the definition to reflect the application of the standards to those engagements not subject to the force of law

**Exposure Draft – ED 8/05 “Objective and General Principles Governing an Audit of a Financial Report”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>23</b>	Last sentence clarification	Insert the word “solely”:  <i>“... draw reasonable conclusions on which to <b>solely</b> base the audit opinion.”</i>
<b>2</b>	<b>46</b>	This mandatory requirement is not appropriate for a special purpose financial report	Insert the words “general purpose”:  <i>“... in preparing a <b>general purpose</b> financial report ...”</i>

**Exposure Draft – ED 9/05 “Terms of Audit Engagements”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>20</b>	This mandatory requirement is not appropriate for special purpose financial reports	Reconsider the applicability of paragraphs 17 to 22 in respect of special purpose financial reports

**Exposure Draft – ED 10/05 “Quality Control for Audits of a Financial Report”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>24</b>	It would be appropriate to include the word “ordinarily” here	Insert the word “ordinarily” before the listing
<b>2</b>	<b>40</b>	Inconsistency in referencing	Last paragraph should read “(b) and (c)” and not “(a) to (c)”
<b>3</b>	<b>44</b>	It would be appropriate to include the word “ordinarily” here	Insert the word “ordinarily” before the listing

**Exposure Draft – ED 11/05 “Audit Documentation”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>31 and 40</b>		Rather than referring to “... <i>issued by a professional accounting body...</i> ” use the same words as in paragraph 38 of the Preamble
<b>2</b>	<b>40</b>	Last sentence is very vague in relation to firm’s systems	This sentence should be far more specific as to which firm’s systems it is referring to
<b>3</b>	<b>41</b>	The third bullet point is inconsistent with paragraph 12 of the Preamble in relation to the documentation requirements	Revise the paragraph to address the inconsistency
<b>4</b>	<b>25</b>	<p>Paragraph 25 of the standard refers to the documentation requirements in relation to <i>Inability to Comply with Mandatory Requirements</i>.</p> <p>We believe that similar paragraphs should be included in this standard that specifically refer to:</p> <ul style="list-style-type: none"> <li>• Paragraph 12 of the Preamble and there being no documentation requirements when the exceptions to the mandatory requirements in paragraph 11 apply;</li> <li>• There being no documentation requirements for the rationale when actions or procedures that are included in paragraphs containing the word “ordinarily” are not undertaken</li> </ul>	Include new paragraphs to address the documentation in the two situations described

**Exposure Drafts – ED 12/05, ED 13/05 and ED 14/05**

No specific comments.

**Exposure Draft – ED 15/05 “Planning an Audit of a Financial Report”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>19</b>	Typing error in second line	Insert the word “ ... <i>nature</i> ...”

**Exposure Drafts - ED 16/05, ED 17/05, ED 18/05, ED 19/05, ED 20/05 and ED 21/05**

No specific comments.

**Exposure Draft – ED 22/05 “Subsequent Events”**

	<b>Paragraph(s)</b>	<b>Issue noted</b>	<b>Recommendation</b>
<b>1</b>	<b>29</b>	Misplaced sentence	The last sentence in this paragraph should be replaced with the standard compliance statement

**Exposure Draft - ED 23/05**

No specific comments.