

20 May 2009

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Via email to: edcomments@auasb.gov.au

Dear Ms Kelsall

Exposure Drafts (EDs)

11/09: Proposed Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements*

12/09: Proposed Auditing Standard ASA 265 *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management*

13/09: Proposed Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*

14/09: Proposed Auditing Standard ASA 505 *External Confirmations*

15/09: Proposed Auditing Standard ASA 508 *Litigation and Claims*

16/09: Proposed Auditing Standard ASA 620 *Using the Work of an Auditor's Expert*

17/09: Proposed Auditing Standard ASA 710 *Comparative Information - Corresponding Figures and Comparative Financial Reports*

Thank you for the opportunity to comment on these seven AUASB Exposure Drafts. CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants (the Joint Accounting Bodies) have considered them and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

This letter is a response to all seven exposure drafts. Remarks should be taken as applying to all of the draft standards except where an issue is unique to a specific standard.

Specific Questions

We offer the following comments on the questions posed in the EDs.

Have applicable laws and regulations been appropriately addressed in the proposed standard?

We believe applicable laws and regulations have been appropriately addressed.

Are there any references to relevant laws or regulations that have been omitted?

We are not aware of any such omissions.

Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any such situations.

Representatives of the Australian Accounting Profession



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The Institute of
Chartered Accountants
in Australia

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nia.org.au

What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

Across the seven EDs there are over 85 new or elevated requirements with which auditors must comply. Potentially, this may significantly increase costs for auditors and the business community. Our views on this matter are expressed in our previous submission on Exposure Drafts provided to the Board in our letter of 17 October 2008.

In relation to paragraphs 4 and 6(a) of ED 11/09 proposed ASA 210, we consider that the requirement for the auditor to determine whether the financial reporting framework to be applied is acceptable is a major change / new requirement. This appears to be an example of where a new requirement might impact quite significantly on smaller firms and sole practitioners, who are more likely to be conducting audits of the financial statements of entities that have more choice about the financial reporting framework to be applied (ie special purpose financial reports), compared with larger entities which are more likely to prepare general purpose financial reports in accordance with Australian Accounting Standards. We therefore consider this to potentially represent a significant cost to both auditors and the business community. Such a change may take some time for practitioners to get used to and will need to be supplemented by guidance and education.

Are there any other significant public interest matters that constituents may wish to raise?

There are no other significant public interest matters we wish to raise.

Other Matters

There are several other matters to which we wish to draw the Board's attention.

ED 11/09 Proposed ASA 210 *Agreeing the Terms of Audit Engagements*

Paragraph 7

It would be helpful to include a reference to auditors-general who may be required by law or regulation, and thus have no discretion, regarding whether or not to accept certain audit engagements. An alternative to either including an Australian paragraph or footnote could be inserting a reference to paragraph A27.

Paragraphs 19-21

This is an area of concern for our members when conducting certain audits prescribed in State legislation and which also prescribes the reporting. In some situations there is no scope for the auditor to incorporate the emphasis of matter (EOM) paragraph, or alter the terms of engagement as State legislation does not permit it. This can create conflict for the auditor between legislative and professional requirements. Therefore we would encourage the AUASB to promote these requirements to State legislators so that they are aware of the professional requirements with which auditors must comply.

Paragraph A12

Reference is made to "public entities", however it is unclear whether this is meant to be "publicly traded/listed entities" or "public sector entities".

ED 13/09 Proposed ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*

This proposed standard was difficult to read given the repetitive use of the words user, service, auditor, etc. For example, the first sentence in paragraph 7 includes the word "use" (or a word derived from it) three times and the word "service" twice, in twelve words. We recommend rewording the standard in a subsequent revision. However, we recognise that the wording used is that of the IAASB, and therefore recommend that the AUASB pass this comment onto the IAASB.

ED 14/09 Proposed ASA 505 *External Confirmations*

Paragraph 1

The wording of the last sentence differs (other than the standard being referenced) from that in the ISA equivalent. Refer to our comments on ASA 508 below regarding whether the reference should be to ASA 501 or ASA 508.

ED 15/09 Proposed ASA 508 *Litigation and Claims*

Following on from our comments on ED 02/09 Proposed ASA 501 *Audit Evidence – Specific Considerations for Selected Items* in our letter dated 15 April 2009, it is not clear why the AUASB needs to retain ASA 508 as a separate standard, and not incorporate the requirements into ASA 501 to be consistent with the IAASB's approach. If the wording of the paragraphs in ASA 508 is identical to the paragraphs in ISA 501 (which it appears to be), then the wording should be retained in ASA 501, with additional "Aus" paragraphs inserted as necessary. In the interests of public accountability and transparency, the AUASB should explain in more detail the reasons for its decision to retain ASA 508. Furthermore, if the Board chooses to retain ASA 508 as a separate standard, the entire standard should comprise "Aus" paragraphs. It is worth noting that there are:

- only four additional requirements in ASA 508 from those detailed in ISA 501, of which two (paragraphs Aus 7.1 and 7.2) are arguably already adequately covered by ASA 560, paragraphs 6 and 7(b);
- 22 additional Application and Other Explanatory Material paragraphs in ASA 508 from those detailed in ISA 501. This suggests that the AUASB is really providing a large amount of guidance to auditors in addition to that provided in ISA 501. Consideration could be given to whether this would be better provided as a separate guidance statement or as an "Aus Appendix" to ASA 501.

Paragraph 1

The word "a" is missing before "financial report" in the last line.

Paragraph Aus6.1

The wording may be improved by moving the phrase "from the in-house legal counsel", from the last line to the third last line after the word "letter".

Paragraph Aus6.2

This may be made more explicit by referring to both external and in-house legal counsel. Also, the way this paragraph is worded suggests that the auditor only needs to seek discussions if there is a disagreement between management and legal counsel. We recommend clarifying this such that, regardless of whether or not the disagreement is resolved, the auditor discuss the matter with management and legal counsel. A reason for making this suggestion is that management's subsequent agreeing with legal counsel's evaluation (as stated in Aus 6.2) might be indicative of a fraud risk factor, or possible deficiency in internal controls and systems, which does not appear to be a concern that is addressed.

Paragraph 7

There should be a cross reference to paragraph Aus A8.13, as Aus A8.13 makes reference to paragraph 7.

Paragraph Aus A8.1 – Aus A8.3

These paragraphs are included under a heading that refers to "In-house Legal Counsel", and yet all three paragraphs refer to both "in-house" and "external" counsel. We therefore suggest that the heading of this section - and the reference in the "Requirements" section of the standard - be changed.

Paragraph Aus A8.4

We do not consider the term "the reasonableness of the details" to be very clear and in line with the redrafting principles of the clarity project and recommend this be reworded as follows: "...the entity's legal counsel confirm **the details** in writing to the auditor."

Paragraph Aus A8.11

We consider this paragraph to be unnecessary. This is consistent with the decision made at a recent Board meeting to not include a similar reference to ASA 230 *Audit Documentation* in ED 23/08 ASA 530 *Audit Sampling*.

Paragraph Aus A8.12

The reference should be to Aus A8.8(c), and not Aus A8.7(c) which does not exist.

Paragraph Aus A8.13

We consider this paragraph to be unnecessary and thus recommend that it be removed.

Paragraph Aus A9.2

Consideration should be given to changing the wording of the last sentence from "the audit opinion needs to be modified" (which sounds like a requirement) to wording similar to that used in other standards: "it may be necessary to modify the audit opinion", since the explanatory material should not represent a definitive requirement.

ED 16/09 Proposed ASA 620 *Using the Work of an Auditor's Expert*

Paragraph 9

An Aus paragraph could be inserted here to require the auditor to consider any safeguards that may reduce threats identified to an acceptable level, and that in cases where safeguards cannot be implemented to reduce the threat to an acceptable level, the external expert cannot be used.

ED 17/09 Proposed ASA 710 *Comparative Information - Corresponding Figures and Comparative Financial Reports*

Paragraph 5

An apostrophe is missing in "auditors".

Paragraph Aus 6.1(b)

We consider this paragraph to be unnecessary and thus recommend that it be removed.

Paragraph A1

The first line is missing the word "a" before the word "comparative".

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



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