

31 January 2006



Ms Merran Kelsall
Chairman
Auditing and Assurance Standards Board
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By email: edcomments@auasb.gov.au

Dear Merran

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Comments on Group 4 and 5 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 December 2005:

- **Exposure Draft ED 27/05**, Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)
- **Exposure Draft ED 28/05**, Proposed Auditing Standard: Audit Sampling and Other Means of Testing (Re-issuance of AUS 514)
- **Exposure Draft ED 29/05**, Proposed Auditing Standard: Audit of Accounting Estimates (Re-issuance of AUS 516)
- **Exposure Draft ED 30/05**, Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)
- **Exposure Draft ED 31/05**, Proposed Auditing Standard: Considering the Work of Internal Audit (Re-issuance of AUS 604)
- **Exposure Draft ED 32/05**, Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)
- **Exposure Draft ED 33/05**, Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)
- **Exposure Draft ED 34/05**, Proposed Auditing Standard: Communication of Audit Matters With Those Charged With Governance (Re-issuance of AUS 710)
- **Exposure Draft ED 35/05**, Proposed Auditing Standard: The Auditor's Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)
- **Exposure Draft ED 36/05**, Proposed Auditing Standard: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410)

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.

CPA Australia is generally supportive of the approach proposed by the AUASB in the re-drafting of the Group 4 and 5 proposed Auditing Standards and their subsequent re-issuance as legal instruments. Comments on specific areas relating to these two groups of EDs are included below.

Specific Comments

Public Sector Considerations to be included as Explanatory Guidance in Auditing Standards

It is proposed in several EDs that the "Public Sector Perspective" paragraphs not be retained in the new legally enforceable Auditing Standards since the Auditing Standards are sector neutral standards. CPA Australia is of the view that public sector considerations should be retained and appropriately included in the body of the Auditing Standards in the form of explanatory guidance in similar fashion to the small entities considerations paragraphs proposed in some EDs. This will not conflict with the concept of sector neutrality since the Authority Statements dictate that the Auditing Standards are to be read in conjunction with the *Preamble to Auditing Standards* [paragraph 25(b)]. It is further noted that paragraph 38 in ED 34/05 currently contains explanatory guidance on public sector considerations.

Clarity of Mandatory Requirements in the New Legally Enforceable Auditing Standards

As International Standards of Auditing (ISA) have been used as the basis for re-drafting the proposed Auditing Standards, the wordings of a large number of mandatory requirements are similar, if not identical, to their ISA-equivalents. As ISAs in their current form are not intended to be legal instruments, in the first phase of the re-drafting exercise, the AUASB has proposed changes necessary so as to ensure the new Auditing Standards are legally enforceable.

Clarity is an important characteristic of legal enforceability. CPA Australia is of the view that it is essential for the AUASB to review those proposed mandatory requirements which contain the phrase "the auditor shall consider" to assess the need for additional explanatory guidance. In such situations, sole reliance on the bold-type requirements is insufficient to determine what the requirements translate to in practice and hence what is expected of the auditor in order to comply with these mandatory requirements. Arguably, there is a greater need to ensure sufficient appropriate explanatory guidance is provided in these instances. This is particularly true when the auditor is required to document what the auditor has considered in order to support the auditor as having complied with the mandatory requirements.

An example is paragraph 12 in ED 30. In order to assist with the interpretation of the phrase "the principal auditor shall consider", the sample explanatory guidance may be included, "(s)ufficient inquiry and review is ordinarily undertaken in order to establish a sound basis for assessing the professional competence of the other auditor." A further example is paragraph 7 in ED 36/05. It is unclear what is meant by, "the auditor shall consider the implications for the auditor's review report." Does it mean that the auditor should indicate the possibility of completing the auditor's review report. All mandatory requirements should clearly indicate the action required or lack of action as necessary.

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



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cc: K Lewis
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APPENDIX

Paragraph Number in Proposed ED (Line Number)	Status (Requirement, Guidance, Footnote or Appendix)	Comment(s)	Suggestion(s)
Exposure Draft ED 27/05 Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)			
13 (1)	Guidance	<p>Explanatory guidance in ISA 501 and the existing AUS 708 equivalent to this paragraph are as follows:</p> <p>ISA 501, paragraph 34, “The letter, which should be prepared by management and sent by the auditor, should request the entity’s legal counsel to communicate directly with the auditor”</p> <p>AUS 708, paragraph .09, “The letter, which should be prepared by management and sent by the auditor, should request the solicitor to communicate directly with the auditor.”</p> <p>Although the ambit of the Auditing Standards does not extend to management, by changing the sentence to, “The auditor shall request management to prepare the representation letter...”, the emphasis on representation letters being the responsibility of management is lost. Further, it is not clear from the proposed requirement that preparation of representation letters are not the responsibility of the auditor.</p>	Consider reverting to the wordings in ISA 501.
24 (7)	Guidance	Terminology to be updated.	Amend as follows: “... to consider the effect of such disagreement on the auditor’s report.”
27 (4)	Guidance	Qualifier to be added as per “Proposed Table of Changes”.	Amend as follows: “In addition, pursuant to AUS 208 Audit Documentation, information obtained from such discussions would <u>is</u> <u>required to be documented, ...</u> ”

29 (1)	Guidance	Implied obligation in explanatory guidance.		Consider amending as follows: “The auditor would <u>ordinarily</u> also consider any relevant legislation to assist in this regard, ...”	
30 (15)	Guidance	Qualifier to be added as per “Proposed Table of Changes”.		Amend as follows: “... where the auditor considers that the disclosure of the uncertainty in the financial report is adequate the auditor <u>would</u> <u>is required</u> to include an emphasis of matter section.”	
30 (17)	Guidance	Auditor’s opinion terminology to be aligned to the proposed “reporting” Auditing Standards (i.e. ED 24/05 and ED 25/05). In an event of a disagreement with management, the auditor will issue either a qualified or an adverse opinion.		Amend as follows: “If in the auditor’s opinion the disclosure of the uncertainty is inadequate or unreliable, a qualified or an <u>adverse</u> opinion would be expressed on the basis of a disagreement with management.”	
34 (11)	Guidance	Auditor’s opinion terminology to be aligned to the proposed “reporting” Auditing Standards (i.e. ED 24/05 and ED 25/05). In an event of a disagreement with management, the auditor will issue either a qualified or an adverse opinion.		Amend as follows: “... the auditor is unable to obtain satisfaction that all the information required for the purposes of the audit has been received, the audit opinion would be qualified or <u>adverse</u> , pursuant to AUS 702 Part B.”	
36 (18)	Guidance	Terminology to be aligned to proposed new Auditing Standards.		Amend as follows: “The Appendix to this <u>Auditing Standard</u> <u>AUS</u> is additional to ISA 501.”	
Exposure Draft ED 28/05 Proposed Auditing Standard: Audit Sampling and Other Means of Testing (Re-issuance of AUS 514)					
Before 6	Header	“Definition” header to be used in other Auditing Standards to ensure consistency across Auditing Standards. Also to enhance readability of Auditing Standards through suitable usage of headers.		“Definition” headers to be used in Auditing Standards which contain definition paragraphs.	
Exposure Draft ED 29/05 Proposed Auditing Standard: Audit of Accounting Estimates (Re-issuance of AUS 516)					
Before 6	Header	Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.		Consider adding “definition” header before defined terms.	

14 (6)	Requirement	Minor editorial.	Amend as follows: "use an independent estimate for comparison with that prepared by management; <u>and/or</u> "
21 (5)	Guidance	Minor editorial.	Amend as follows: "Mandatory requirements and explanatory guidance on how to use the work of an expert is are provided in AUS 606 <i>Using the Work of an Expert</i> ".
33 (12)	Guidance	Reference to "entity's financial reporting framework" should be amended to "applicable financial reporting" framework in accordance with ED 8/05, paragraph 4. This is also consistent with the remainder of this ED (e.g. paragraph 33; dot point 1) and other EDs (e.g. ED 8/05; paragraph 5, ED 1/05; paragraphs 22, 26(a), 28, 29 ED 12/05; paragraph 20)	Consider amending as follows: "... that disclosures related to accounting estimates are complete and appropriate under the <u>entity's applicable</u> financial reporting framework. ..."
Exposure Draft ED 30/05 Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)			
Before 6	Header	Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.	Consider adding "definition" header before defined terms.
Footnote 1	Guidance	It is observed that inclusion of text extracted from a secondary source eg. <i>Corporations Act 2001</i> , Joint Code of Professional Conduct, is generally avoided in all other EDs. It is not clear the reason for departure in this instance. Repetition, in the legally enforceable Auditing Standards, of text directly from another source of legislation (i.e. <i>Corporations Act 2001</i>) should be avoided. A more effective way would be to cite the section references.	Consider replacing proposed extracts from <i>Corporations Act 2001</i> with the corresponding section numbers.
20 (1)	Guidance	Proposed qualifier inappropriate. Implied obligation is better linked to AUS 208, "Documentation" for consistency, e.g. ED 31/05, paragraph 23.	Consider amending as follows "Pursuant to paragraph 18 of this Auditing Standard AUS 208 , the principal auditor is required to document in audit working papers ..."

Exposure Draft ED 31/05
Proposed Auditing Standard: Considering the Work of Internal Audit (Re-issuance of AUS 604)

Before 6	Header	Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.	Consider adding "definition" header before defined term.
8	Guidance	The ED makes no mention of "systems" which could be regarded as a major element of any internal auditor's work in today's environment.	Consider providing guidance to address the internal auditor's usage of systems in the course of their work e.g. second dot point of paragraph 8.
9 (7)	Guidance	Sentence seems to paint a rather limited picture and hence an unnecessarily negative view of an external auditor's primary concern. The statement should be enhanced by giving considerations to the suggested wordings for an unmodified auditor's opinion.	Consider amending as follows: "The external auditor's primary concern is whether the financial report is free of material misstatements and <u>fairly represents the financial position of the entity</u> ".
16(a) (1)	Guidance	Minor editorial.	Amend as follows: "Organizational status: ..."
18 (2)	Guidance	Proposed usage of the word "tentative" may paint an unnecessarily negative picture of the integrity of the work of internal audit.	Consider amending as follows: "When planning to use the work of internal auditing, the external auditor will ordinarily need to consider internal auditing's <u>tentative proposed plan</u> for the period and discuss it at as early a stage as possible."
19 (1)	Guidance	Original sentence in ISA does not contain an implied obligation. Insertion of qualifier is not required.	Consider amending as follows: "Liaison with internal auditing is effectively more effective when meetings are held at appropriate intervals during the period."
24 (6)	Guidance	Questionnaire provided in the Appendix 1 is provided as an illustrative sample. This should be clarified via the use of wordings consistent with other EDs e.g. ED 24/05 and ED 25/05.	Consider amending as follows: "This Auditing Standard includes in Appendix 1 a an <u>illustrative example</u> questionnaire which assist the auditor in obtaining an understanding and making preliminary assessment ..."

Exposure Draft ED 32/05

Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

4 (4)	Guidance	<p><i>Corporations Act 2001</i> (“the Act”), Section 314(2) refers to “concise financial reports”. In view of the AUASB’s intention to address audit reporting considerations relating to concise financial reports in a separate Guidance Statement, it should be clarified in the Auditing Standard the differentiation between “concise financial report” and “summarised financial report”.</p>	<p>Consider amending as follows: Insert footnote similar to that inserted in ED 35/05, footnote 2 and 4, as follows: “This Auditing Standard does not address the auditor’s reporting on a concise financial report prepared in accordance with the <i>Corporations Act 2001</i> and AASB 1039. Audit reporting considerations relating to concise financial reports will be addressed in a separate Guidance Statement</p>
Before 6	Header	<p>Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.</p>	<p>Consider adding “definition” header before defined term.</p>
6 (9)	Guidance	<p>Minor editorial.</p>	<p>The defined terms are should form part of an alphabet listing.</p>
10 (4)	Guidance	<p>Proposed qualifier inappropriate. Guidance is more appropriately linked to the mandatory requirement in ED 8/05 (AUS 202), paragraph 10 which requires the auditor to conduct an audit in accordance with Auditing Standards.</p>	<p>Consider amending as follows: “When the financial report of the prior period has been audited by another auditor, pursuant to paragraph 8 of this Auditing Standard, the incoming auditor evaluates whether the comparatives are materially misstated and pursuant to <u>AUS 202</u>, also follows the guidance in AUS 510 Initial Engagements – Opening Balances and AUS 602 Using the Work of Another Auditor.”</p>
10 and 11	Guidance	<p>Insertion of qualifier “ordinarily” as claimed in the “Table of Proposed Changes” not evident.</p>	<p>-</p>
19 (6)	Guidance	<p>This mandatory requirement should also refer to the explanatory guidance in AUS 706 in addition to the mandatory requirement in that proposed Auditing Standard. This is necessary as explanatory guidance paragraph 28 of ED 22/05 (AUS 706) is directly relevant to this particular paragraph. Including such a reference does not result in black-lettering of the explanatory guidance in AUS 706 by the back door as the auditor is required to “<u>considers</u> ... AUS 706”.</p>	<p>Consider amending as follows: “... the auditor shall express an unmodified opinion and consider the mandatory requirements <u>and explanatory guidance</u> in AUS 706</p>

22	Requirement	This paragraph is additional to ISA 710, adapted from the existing AUS 704. It is noticed that in the existing AUS 704, explanatory guidance are provided to support this requirement (paragraph .15). Given that this proposed mandatory requirement is additional to the equivalent ISA, the corresponding explanatory guidance provided in the existing AUS 704 should be similarly adopted.	Consider incorporating paragraph .15 in the existing AUS 704 as a paragraph separate from paragraph 19 in the ED.
Exposure Draft ED 33/05 Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)			
Before 6	Header	Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.	Consider adding "definition" header before defined term.
6 (1)	Guidance	AASB's Glossary of Defined Terms includes a definition of 'materiality' as follows: "Information is material if its non-disclosure could influence the economic decisions of users taken on the basis of the financial report." This paragraph proposes an alternative definition of 'materiality' as follows: "Materiality" means, in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by management or the governing body of the entity."	Consider excluding the word 'adverse' from the proposed definition of 'materiality'.
		The word 'adversely' contained in the above definition should be used with caution as users could be misled to link the determination of materiality to the decision to be made by auditors to express an adversely decision. Referring back to AUS 702(Part B), adverse opinions are issued under extreme cases and a definition of 'extreme' is provided. There is the potential for user to link the two terms together.	

12 (4)	Requirement	Reference to "other procedures" in the mandatory requirement should be clarified that the reference is to "other audit procedures". This is also consistent with other EDs e.g. ED 30/05, paragraph 16.	Consider amending as follows: "An auditor shall make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures at the assertion level, selection strategies and other <u>audit</u> procedures."
17 (4)	Guidance	Profit impact as an unsuitable quantitative evaluation of materiality for a not-for-profit organisation seems to be a self-evident truth. Consider excluding this part of the example or providing a better example.	Consider replacing the example with another example or amend as follows: "For example, an evaluation of materiality based on profit impact might not be appropriate when the entity is a not-for-profit organisation, or when the entity's earnings are volatile."
25 (d)	Guidance	For comprehensiveness and greater clarity, a reference should be added in point 4(d) to refer users to AUS 402 for a more detailed discussion on assessing the weaknesses in the entity's system of internal control.	Consider amending as follows: "Examples of qualitative material misstatements include: ... (d) matters which indicate weaknesses in the entity's system of internal control which may have further impact on various aspects of the financial reporting process (<u>Refer to AUS 402 for further guidance</u>);
27 (3)	Requirement	The proposed mandatory requirement differs from the requirement in the existing AUS 306 in its exclusion of "clearly trivial misstatements" as amongst those matters to be communicated to management. It is noted that this also constitutes a departure from ISA 320. CPA Australia believes that, where practicable, the auditor should endeavour to report to the appropriate level of management all known and likely misstatements identified, including the clearly trivial as management should be made aware of them. This should be advocated via the inclusion of related explanatory guidance.	Consider inserting explanatory guidance after paragraph 27: "The auditor ordinarily endeavours to ensure that the management is made aware of all known and likely misstatements identified, including the clearly trivial, where practicable."

29 (3)	Guidance	Implied obligation in explanatory guidance.	Consider amending as follows: “The auditor <u>ordinarily</u> considers, for example, whether the item: (a) is capable of precise measurement or whether it arises from an estimate and if so, the degree of imprecision inherent in the estimate ...”
29(h)	Guidance	Inclusion of the explanatory guidance “raises any other issues relating to the entity’s business or industry” is not specific hence significantly reduces, if not eradicates, its helpfulness to users of the proposed Auditing Standard.	The type of issues to which the example alludes should be clarified e.g. those issues that are questionable or adversely impacting the entity.
Exposure Draft ED 34/05 Proposed Auditing Standard: Communication of Audit Matters With Those Charged With Governance (Re-issuance of AUS 710)			
Before 6	Header	Refer to comment made for ED 28/05. Add header to enhance readability of the ED and to ensure consistency with other proposed Auditing Standards.	Consider adding “definition” header before defined term. Also, consider using bullet points for consistency with other EDs
6	Guidance	Paragraph 6 states “Those charged with governance include management only when it performs such functions.” It is not clear whether this includes management that are entrusted with the governance functions of “oversight, control and direction of an entity”, or whether performing such functions means carrying out the actions on behalf of those charged with governance. Clarification of the word “it” in the sentence is required. Whether management “perform such functions” is critical in determining whether management are relevant persons or not, and therefore whether the proposed Auditing Standard includes management.	Clarification of the proposed explanatory guidance is required.
10 (4)	Guidance	Reference to “governing board” more appropriately amended to “governing body” to avoid confusion with the Board of Directors. This is also consistent with the remainder of the ED e.g. paragraph 32.	Consider amending as follows: “In Australia, the audit committee or a governing <u>board</u> <u>body</u> is responsible for the oversight function, while senior executives is responsible for the management function.”

10 (5)	Guidance	Proposed explanatory guidance refers to “senior executives” whereas the “Table of Proposed Changes” refers to “senior management”. It is further questioned whether “management” needs to be preceded by “senior” since the definition of management in paragraph 7 alludes to the seniority of managerial functions.	Clarification is required.
Footnote 1 (12)	Guidance	Add issuing body of the Principles of Good Corporate Governance and Best Practice Recommendations.	Consider amending as follows: “In Australia, it may be appropriate to refer to the <i>Principles of Good Corporate Governance and Best Practice Recommendations</i> , as issued from time to time, by the <u>Corporate Governance Council of the Australian Stock Exchange Ltd.</u> ”
12 (6, 7)	Guidance	Minor editorial.	Amend as follows: “Examples include some owner-managed entities, some <u>not-for-profit organizations</u> , and some government agencies.”
16 (1)	Guidance	Minor editorial.	Consider amending as follows: “Audit matters of governance interest ordinarily such matters include the following ...”
18	Guidance	A reference should be added to the explanatory guidance to refer users to AUS 306 for a more comprehensive discussion on communication with those charged with governance.	Consider amending as follows: “The uncorrected misstatement communicated to those charged with governance need not include the misstatement below a designated amount <u>(Refer to AUS 306 for further guidance).</u> ”
19 (3)	Guidance	Proposed qualifier to be re-positioned.	Consider amending as follows: “Pursuant to paragraph 15 of this Auditing Standard, as part of the auditor’s communications, those charged with governance are informed that: (a) pursuant to paragraph 15 of this Auditing Standard , the auditor’s communications of matters is required to include only those audit matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit; and (b) an audit of a financial report is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.”

20	Requirement	It is unclear what the terms “firm”, “network firms”, components controlled” and “the entity” refer to. It is further noted that some of these terms are used for the first time in the EDs.	The meanings of and relationships between the terms “firm”, “network firms”, components controlled” and “the entity” in the mandatory requirement should be clarified.
32 (3)	Guidance	It is unclear as to what is meant by the word “operational style”. Does it refer to the different roles that are assumed by the board committees, the way in which these committees interact with the auditors or their competence or lack thereof?	Consider including guidance to explain the phrase “operational style”.
36 (10)	Guidance	Replace “legal counsel” with “lawyers” to ensure consistency with other EDs.	Consider amending as follows: “In these cases, the auditor may wish to consult with legal counsel lawyers. ”
37 (1)	Guidance	Replace “professional accountancy body” with “professional accounting body” to ensure consistency with other EDs.	Consider amending as follows: “The requirements of a professional accountancy accounting body, legislation or regulation may impose obligations on the auditor to make communications on governance related matters.”
Footnote 5 (1)	Guidance	ASIC Regulation 2AC states: For the definition of <i>professional accounting body</i> in subsection 5(1) of the Act, the following bodies are prescribed: (a) CPA Australia; (b) The Institute of Chartered Accountants in Australia; (c) National Institute of Accountants. Proposed use of the word “includes” has the implication of widening the definition of “professional accounting body” and is inconsistent with <i>ASIC Regulations 2001</i> .	Amend as follows: “A professional accounting body as defined in AUS 206 includes is prescribed as: <ul style="list-style-type: none"> • CPA Australia; • The Institute of Chartered Accountants in Australia; and or • National Institute of Accountants. Also see comment made in CPA Australia’s submission to the Group 2 EDs on proposed Auditing Standards for ED 10/05, paragraph 8.
38 (2)	Guidance	Inconsistency between the proposed wordings in paragraph 38 and the “Table of Proposed Changes”.	Amend as follows: “In the public sector, obligations imposed on the auditor to communicate on governance related matters that are may be broader than the types of matters discussed in this Auditing Standard.”

Exposure Draft ED 35/05 Proposed Auditing Standard: The Auditor's Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)		
9	Requirement	<p>Appendix 2, paragraph 20 and 21 of ED 24/05 [AUS 702 (Part A)] lists the <i>Corporations Act 2001</i> requirement for the auditor's report on a financial report prepared pursuant to the <i>Corporations Act 2001</i> 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". It should be clarified in the ED that an auditor's report prepared in accordance with the <i>Corporations Act 2001</i> will need to comply with this requirement.</p>
23 (1)	Requirement	<p>The framework under which financial reports referred to in the mandatory requirement is prepared should be clarified.</p>
37 (5,6)	Requirement	<p>It is unclear as to whether the sentence, "[t]o do otherwise may overshadow the report on the entire financial report" is intended to constitute a separate paragraph of explanatory guidance or form part of the mandatory requirement. Its equivalent in ISA 800 takes the status of explanatory guidance. It is noted that the "Table of Proposed Changes" does not document an item proposing the elevation of this sentence.</p>
		<p>Consider adding explanatory guidance as follows: "The auditor's report on a financial report prepared pursuant to the <i>Corporations Act 2001</i> 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."</p>
		<p>Consider amending as follows: "The auditor shall consider whether the financial report prepared in accordance with an alternative comprehensive basis of accounting is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs."</p>
		<p>Clarification is required.</p>

Exposure Draft ED 36/05

Proposed Auditing Standard: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410)

General	Requirement, Guidance	It is unclear the reason for differentiating the proposed ASRE 2410 from other proposed Auditing Standards by referring to it as a "Standard" as opposed to "Auditing Standard" which is what is proposed to be used to describe those standards that related to an audit of a financial report. Given that the authority statement sets out that the ASRE is to be read in conjunction with the <i>Preamble</i> , and that footnote 2 clearly explains that ASRE 2410 though applicable to the review of a interim financial report, it is similarly referred to as an "Auditing Standard". This is inconsistent and may result in unnecessary confusion.	The proposed ASRE 2410 should be referred to as an "Auditing Standard" as opposed to the proposed "Standard".
9 (1)	Guidance	Instead of being placed at the end of the statement (which may result in the reader wrongly construing that Footnote 2 applies to the word "technical standards" as opposed to the entire sentence), it is more suitable that the words "ethical requirements" be footnoted with the contents of Footnote 2.	Footnote "ethical requirements" with the contents currently proposed in Footnote 2. Also, to ensure consistency with ED 8/05, add the word "relevant" to "ethical requirements.
18 (29)	Guidance	Minor editorial.	Amend as follows: "The terms of engagement to review an interim financial report <u>can also</u> be combined with the terms of engagement to audit the annual financial report."
24 (2)	Requirement	The need to re-arrange the words adapted from ISRE 2410 is unclear. Wordings should only be changed if there is a demonstrable need.	Consider amending as follows: " ... a recently appointed auditor an auditor-appointed recently , who has not yet performed an audit of the annual financial report, ..."
63(1), 65(1)	Requirement	Both terms "judgement" and "professional judgement" are currently used in the EDs. Terminology used in the new Auditing Standards should be standardised.	Consider only using the term "professional judgement" for all EDs consistent with the Preamble and ED 8/05 (re-drafted AUS 202).
72 (1)	Guidance	Incorrect paragraph reference. Explanatory guidance should be referring to paragraph 70(k) as opposed to the proposed paragraph 70(i).	Amend as follows: "The term 'other circumstances' referred to in paragraph 70 (i) <u>(k)</u> refers to circumstances ..."

81 (6)	Requirement	The auditor may have one or more than one reason as to why the review cannot be completed. This should be reflected in the proposed mandatory requirement similarly to explanatory guidance paragraph 82 (line 8).	Consider amending as follows: “...the reason(s) why the review cannot be completed.”
82 (15)	Guidance	The proposed qualifier links the implied to paragraph 62, 63 and 66. However, paragraphs 63 and 66 alludes to communication by the auditor with those charged with governance (as opposed to management as stated in paragraph 82). It is further noted that lines 9 onwards of paragraph 82 is identical in substance to line 7 onwards of paragraph 84).	For consistency and also as a solution to the issue outlined, consider adopting the wordings in paragraph 84 (line 7 onwards) in paragraph 82 (line 9 onwards).
84 (11)	Guidance	Proposal to link implied obligation to a grey-letter paragraph is inappropriate.	Implied obligation should be linked to similar paragraphs as that in paragraph 82 (line 13).
86 (2)	Guidance	Minor editorial.	Amend as follows: “A limitation of scope may occur due to circumstances other than a limitation of scope imposed by those charged <u>charged</u> with governance.”
86 (4,5)	Guidance	Proposal to link implied obligation to a grey-letter paragraph is inappropriate. Implied obligations should instead be linked to the mandatory requirements in paragraph 81 and 83.	Consider amend as follows: “...the auditor is ordinarily unable to complete the review and express a conclusion and is guided by paragraph 82 81 and 84 <u>83</u> .”