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The Chairman
Auditing and Assurance Standards Board
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Dear Chairman,

Exposure Draft 27/05 AUS 508 Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)

Exposure Draft 28/05 AUS 514 Proposed Auditing Standard: Audit Sampling and Other Means of Testing (Re-issuance of AUS 514)

Exposure Draft 29/05 AUS 516 Proposed Auditing Standard: Audit of Accounting Estimates (Re-issuance of AUS 516)

Exposure Draft 30/05 AUS 602 Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)

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

Exposure Draft 32/05 AUS 704 Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attached comments in response to the Exposure Drafts referred to above.

This represents the views of the Australian members of ACAG with the exception of the Auditor-General for South Australia who reserves his right to respond separately to auditing and accounting Exposure Drafts where he deems it appropriate, rather than as a member of ACAG.

Request for Comments

While ACAG supports the overall content of the Proposed Auditing Standards, we have enclosed, as separate attachments, commentary on matters that the AUASB should consider as it finalises these Exposure Drafts.

In our submission dated 14 October 2005 on EDs 1/05, 2/05, 3/05, 4/05 and 5/05 we included an attachment titled “generic matters”, which included comments on issues applying to all of those five Exposure Drafts. These “generic matters” are not repeated in the attachments to this letter although we anticipate that they will have relevance to all Exposure Drafts.

Thank you for providing the members of ACAG with the opportunity to comment.

Yours faithfully

Frank McGuinness
Chairperson, ACAG Financial Reporting Group (formerly Advisory Committee)
30 January 2006

ATTACHMENT

Generic Matters – matters raised that were common to each of these three Exposure Drafts

One noted beyond those raised in our submission of 14 October 2005.

In prior ACAG responses we made references to a number of "generic matters" relevant to all exposure drafts being reissued. One particular area of comment related to the request for greater consistency in the use of the word "ordinarily" in order to remove any implied obligations within the standards. A number of instances were identified in the present group of exposure drafts where the use of the term "ordinarily" was not considered to be appropriate or otherwise consistent with its intended use throughout the reissued standards. To this extent, we refer you to our comments in the previous submissions and to the specific matters identified within this submission and encourage the AUASB to ensure that the term "ordinarily" is used in a consistent basis to ensure that there is no confusion as to the intended meaning of this term."

MATTERS SPECIFIC TO EACH EXPOSURE DRAFT

Exposure Draft 27/05 AUS 508 Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)

[Contact person: Jasmina.Munari@audit.nsw.gov.au or 02 9275 7307]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Detailed Comments

Conformity with International Standards on Auditing

We believe there should be a mandatory requirement covering the obligations on auditors if management refuses to prepare the representation letter, as requested by paragraph 13 of the proposed Auditing Standard, or if management refuses the auditor permission to communicate with legal representatives. The proposed Auditing Standard addresses auditor obligations when the lawyer fails to respond, however no similar reference is made when management refuses the auditor's requests.

The equivalent ISA (501.37) includes a mandatory requirement which documents the obligations of an auditor if management refuses to give the auditor permission to communicate to the entity's legal counsel. If no similar requirement exists in AUS 508, then the AUS departs from its international equivalent.

Given a refusal by management in this context would be a limitation of scope, we believe relevant requirements must be included in the Standard.

Paragraph 9

The wording in this paragraph is very poorly expressed, it could be improved (simplified and plain English). We recommend the paragraph be reworded as follows:

"Audit procedures undertaken for different purposes might also disclose legal matters. Such procedures include..."

Paragraphs 23 to 25, 26 and 28

We believe these paragraphs all specify responsibilities an auditor **should be** required to do under the circumstances specified in each paragraph. We consider these paragraphs to be obligations that must be performed.

In particular, paragraph 26 at the very least should be made mandatory. Paragraph 26 is analogous with paragraph 22, which is a mandatory requirement documenting auditor obligations when the lawyer contains a material disagreement with management's evaluation of particular legal matters. Paragraph 26, which outlines

auditor responsibilities when lawyer's fail to respond comprehensively, should also be made a mandatory requirement.

[The second sentence in paragraph 28 should remain as explanatory guidance].

Related Procedures (paragraph 31 to 35)

There is no requirement or explanatory guidance which follows paragraph 32 to direct auditors on what to do once a solicitors' representation letter has been requested to confirm new legal matters identified subsequent to the date of the letter and prior to signing the audit report. Therefore, to clearly outline the requirements of the auditor in these circumstances, we believe reference to paragraphs 5 and 11 to 30 of the proposed Auditing Standard should be mentioned.

Paragraph 34

We believe the insertion of the term 'ordinarily' within the second sentence of paragraph 34 is inappropriate. In accordance with the mandatory requirement in paragraph 5 of this proposed Auditing Standard, the auditor should extend audit procedures to ensure that sufficient appropriate audit evidence on which to form an opinion has been obtained. Therefore we recommend the 'Pursuant to' rule be applied.

We suggest the following alternative wording:

'Pursuant to paragraph 5 of this Auditing Standard, the auditor is required to extend the audit procedures to ensure that sufficient appropriate audit evidence on which to form an opinion has been obtained'.

Paragraph 35

We believe that there are auditor responsibilities within paragraph 35 that must be performed. The auditor should be required to discuss information that comes to the attention of the auditor that may indicate the existence of material liabilities and ascertain whether management's refusal to seek advice on new information is a limitation in the scope of the auditor's work. We recommend these responsibilities should be made mandatory requirements.

Paragraph 20

There is an implied obligation in the second sentence of paragraph 20, '...the auditor would consider...'. We believe that to ensure consistency with the new format of all the reissued Auditing Standards the term 'ordinarily' should be inserted into this sentence to address this implied obligation.

Paragraph 29

There is an implied obligation in the first sentence of paragraph 29, 'The auditor would also consider...'. We believe that to ensure consistency with the new format of

all the reissued Auditing Standards the term 'ordinarily' should be inserted into this sentence to address this implied obligation.

Paragraph 30

The flow of explanatory guidance and requirements set out in paragraph 30 is confusing. There also appears to be an implied obligation that is not pursuant to AUS 702 (i.e. the obligation that where, due to material uncertainties, a solicitor is unable to form a conclusion, after pursuing all reasonable alternative means of obtaining sufficient appropriate audit evidence, to use a modified opinion). We recommend this paragraph identify the auditor's obligations and present them in a format that is clear, particularly the audit reporting obligations of AUS 702.

Consider the response from Law Council of Australia and implications on AUS 508

We note the proposed Auditing Standard makes no reference to the decision in the 789TEN v Westpac Banking Corporation NSWSC 123 in relation to legal professional privilege and communication with auditors. If it is not to be addressed in this proposed Auditing Standard, we recommend the AUASB provide guidance in the form of an Auditing Guidance Note or Assurance Alert.

Exposure Draft 28/05 AUS 514 Proposed Auditing Standard: Audit Sampling and Other Means of Testing (Re-issuance of AUS 514)

[Contact person: Heather.Watson@audit.nsw.gov.au or 02 9275 7479]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Proposed changes to paragraph 27 results in inconsistency with AUS 502

The second sentence of this paragraph contains a departure from both the existing AUS 514 and ISA 530. The words 'the auditor needs to be satisfied' have been replaced with 'the auditor ordinarily gains satisfaction'.

The proposed change suggests that there may be times when the auditor does not gain satisfaction that the methods used provide sufficient appropriate audit evidence. AUS 502 'Audit Evidence' requires that the auditor ***always*** needs to be satisfied that sufficient appropriate audit evidence has been provided. Therefore, the proposed wording is inconsistent with another Standard.

We suggest the following alternative wording:

'Pursuant to paragraph 22 of this Auditing Standard, the decision as to which means, or combination of means, to use is made on the basis of the risk of material misstatement related to the assertion being tested and audit efficiency. However, pursuant to AUS 502, the auditor must be satisfied that the methods used are effective in providing sufficient appropriate audit evidence to meet the objectives of the audit procedure.'

Proposed changes to paragraph 30 do not improve the paragraph

Existing paragraph 30 stated:

'The auditor considers the need to obtain sufficient appropriate audit evidence regarding the remainder of the population when that remainder is material.'

This paragraph required the auditor to consider whether sufficient appropriate audit evidence for the remainder of the population is needed. It did not require the auditor to actually obtain this evidence. Accordingly, changes have been made such that the paragraph in the proposed Auditing Standard reads as follows:

'Pursuant to paragraph 25 of this Auditing Standard, the auditor is required to consider the approach needed to obtain sufficient appropriate audit evidence regarding the remainder of the population when that remainder is material.'

However, this new wording still does not require the auditor to actually obtain the audit evidence, it simply requires the auditor to consider how to get the evidence.

Accordingly, it should be reworded as:

‘Pursuant to paragraph 25 of this Auditing Standard, the auditor is required to obtain sufficient appropriate audit evidence in respect of the remainder of the population when that remainder is material.’

Use of the word ‘generally’ in paragraph 38

The use of the word ‘generally’ is inappropriate. Whilst the word appears in ISA 530, in the context of ‘force of law’ standards, a subjective term like ‘generally’ must be removed.

It appears that an attempt at addressing this implied obligation has occurred by inserting the word ‘ordinarily’ at the beginning of the second sentence within this paragraph. There is no need for the word ‘ordinarily’ to appear in the context of a description of an assessment. Rather, the word ‘generally’ should be replaced with ‘ordinarily’, and the second sentence left simply as a description of an assessment.

Proposed change to paragraph 39 is not appropriate

Paragraph 39 of the proposed Auditing Standard has had the words ‘need to’ removed. The sentence now reads: ‘if the auditor intends to use the sample...the population includes all relevant items...’. However, it is not necessarily true that the population automatically *will* include all items; it is true that the population *needs to* include all items. The proposed change has changed the meaning of the sentence.

Given that the words ‘needs to’ are in the context of a population, and not the auditor’s obligations, and that the proposed change alters the sentence’s meaning, we believe the proposed change is unnecessary and inappropriate.

Use of the word ‘ordinarily’ not necessary in paragraph 42

Paragraph 42 of the proposed Auditing Standard describes stratification. We do not believe the existing wording of the paragraph included an obligation upon the auditor; rather it described stratification. As such, the insertion of the word ‘ordinarily’ is unnecessary.

There may be a concern that the commentary implies that stratification *always* allows greater audit effort to be directed to larger value items. If this is the case, then the insertion of the word ‘may’ or ‘can’, after the word ‘This’ at the beginning of the second sentence, would address this concern.

Use of the word ‘ordinarily’ in paragraph 43

We believe the use of the word ‘ordinarily’ to overcome implied obligations is not appropriate in paragraph 43.

The second sentence of the paragraph states:

‘To draw a conclusion on the entire population, the auditor will ordinarily consider the risk of material misstatement in relation to whatever other strata make up the entire population.’

The requirement to consider the risk of material misstatement exists in black letter paragraph 22. Accordingly, we recommend the second sentence of paragraph 43 should state:

‘To draw a conclusion on the entire population, the auditor is required, pursuant to paragraph 22 of this Auditing Standard, to consider the risk of material misstatement in relation to whatever other strata make up the entire population.’

The final sentence of paragraph 43 states:

‘The auditor ordinarily evaluates the results of this sample and reaches a conclusion on the 90% value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).’

We believe the use of the word ‘ordinarily’ in the final sentence is contradictory to the first sentence of the same paragraph. The first sentence states that the results of procedures applied to a sample of items can **only** (bold added) be projected to items that make up that stratum. Using the word ‘ordinarily’ implies there are circumstances when results could be applied to items outside the stratum – which contradicts the earlier statement.

We could not identify a black letter requirement to evaluate sample results and so could not anchor this implied obligation to mandatory requirements. Accordingly, we suggest this requirement to evaluate sample results be elevated.

Implied obligations within paragraph 55 inappropriately addressed

Pursuant to the Table of Proposed Changes, the word ‘ordinarily’ has been inserted to address the implied obligations within this paragraph. We believe the use of the word ‘ordinarily’ is not necessarily appropriate in the context of the implied obligations within paragraph 55.

The implied obligations are pursuant to the mandatory requirements in paragraph 54. As such, we recommend the fourth sentence of the paragraph could be reworded as follows:

‘However, when such errors are identified, the auditor, pursuant to paragraph 54 of this Auditing Standard, makes specific enquiries to understand these matters and considers matters such as...’

The last sentence of paragraph 55 also includes an implied obligation that has been addressed via the insertion of the word ‘ordinarily’. Given this sentence is in the context of audit evidence, we suggest the implied obligation would be better dealt with as follows:

‘In these cases, the auditor, pursuant to AUS 502 ‘Audit Evidence’, determines whether the tests of controls performed provide an appropriate basis for use as audit evidence...’

Elevation and rewording of paragraph 58

We disagree that elevation of paragraph 58 is required. The procedures in this paragraph can be anchored back to the mandatory requirements in paragraph 54. Pursuant to paragraph 54, in determining the effect on a particular audit objective, the auditor would perform procedures to ensure that anomalous errors are just that, and not representative of the population.

We recommend the paragraph be reworded as follows:

‘Pursuant to paragraph 54 of this Auditing Standard, the auditor is required to perform further audit procedures to obtain sufficient appropriate audit evidence that errors which are suspected to be anomalous errors are not representative of the population.’

If paragraph 58 is reworded using the words above, then the wording of the first sentence of paragraph 59 can revert to that of the equivalent paragraph of ISA 530.

Spelling of the Word ‘Cheque’

Paragraphs 12 and 52 of the proposed Auditing Standard utilises the American spelling of the word ‘cheque’, that is, ‘check’. The word should be spelt as per the Australian norm.

Inconsistent Heading Font

The heading before paragraph 44 of the proposed Auditing Standard is the same font size as the heading before paragraphs 45, 48 and others. However, based on the font applied in ISA 530 to the equivalent heading, the font should be as per the font applied to the heading before paragraph 41 of the proposed Auditing Standard.

Exposure Draft 29/05 AUS 516 Proposed Auditing Standard: Audit of Accounting Estimates (Re-issuance of AUS 516)

[Contact person: Jasmina.Munari@audit.nsw.gov.au or 02 9275 7307]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Former Appendix 1

We recommend that Appendix 1, contained within existing AUS 516 be retained in order to provide guidance for auditors on the types/examples of accounting estimates.

ED 29/05 has been drafted with the insertion of paragraph 6, which lists 9 examples of where accounting estimates may be required. However, we are of the opinion that the existing Appendix 1 in AUS 516 is far more comprehensive, even though it is not an exhaustive list.

Exposure Draft 30/05 AUS 602 Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)

[Contact person: Nicole.Connolly@audit.nsw.gov.au or 02 9275 7345]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Detailed Comments

Paragraph 15

This paragraph contains obligations pursuant to paragraph 14. Item (d) requires that the principal auditor advise the other auditor of:

'the accounting, auditing and reporting requirements and obtain written representations as to compliance with them.'

The requirement for the principal auditor to obtain written representations imposes an obligation that is beyond the control of the principal auditor. We suggest that the wording be amended to: 'and endeavour to obtain written representations'. Such an amendment is consistent with the way that other proposed Auditing Standards have dealt with requirements in respect of obtaining written representations.

Paragraph 20

This paragraph sets out requirements of the principal auditor pursuant to paragraph 18. However, we disagree that the paragraph 20 requirements can be anchored to the mandatory requirements in paragraph 18.

Paragraph 18 states: 'The principal auditor shall consider the significant findings of the other auditor'. However, paragraph 20 requires documentation of many items, none of which are the consideration of significant findings.

We believe the requirements of paragraph 20 are more closely related to the requirements in AUS 208 *Audit Documentation* regarding documentation of audit evidence. The items to be documented per paragraph 20 form part of the principal auditor's audit evidence. We suggest that paragraph 20 be amended as follows:

'In accordance with Auditing Standard 208 *Audit Documentation*...'

Paragraph 25

This paragraph includes a requirement that has been anchored to a mandatory requirement in paragraph 23. However, we disagree that the anchoring is appropriate.

Paragraph 23 contains a mandatory requirement to issue a modified opinion because of a limitation of scope. Paragraph 25 contains a requirement to consider whether the subject of a modification (on a component of financial information audited by another

auditor) is of such a nature and significance that a modification is required in the principal auditor's report (on the whole financial report). The modification on the component may, or may not, be related to a limitation of scope.

We consider the requirement of paragraph 25 to be separate and distinct from the mandatory requirement in paragraph 23. The two paragraphs deal with different circumstances. As such, we suggest paragraph 25 be elevated to a mandatory requirement.

Footnotes

We believe the use of footnotes should be discouraged. The mandatory requirements and explanatory guidance within Auditing Standards should stand on their own, without the need for footnoted explanations. As such, we recommend the removal of the footnote and incorporation of minimum guidance on the *Corporations Act 2001* into the guidance in paragraph 11. Auditors are able to review the detailed requirements of the Act by referring to the Act itself.

Grammatical Error - Paragraph 13

Paragraph 13 – move comma from after “affiliation,” to after “affiliation with,” – should read: “Some sources of information for this consideration could be common membership of a professional organisation, common membership of, or affiliation with, another firm of reference to the professional organisation to which the other auditor belongs.” (The ISA is incorrect in its placement of the comma).

In any event, the placement of the phrase “pursuant to ... this Auditing standard” in paragraph 25 leads to an unnecessary ambiguity. It could be read as referring to the other auditor’s issue of a modified report. The words should be placed immediately after “the principal auditor is required”.

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

[Contact person: Nicole.Connolly@audit.nsw.gov.au or 02 9275 7345]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Detailed Comments

Paragraph 16(a)

While we acknowledge the wording is drawn from ISA words, we found that paragraphs 7 and 10 are very similar in content. We recommend the deletion of paragraph 10, with only the following words to be inserted as the last sentence within paragraph 9: “Nevertheless, some of the means of achieving their respective objectives are often similar.”

Paragraph 16(a)

Organizational should be spelled as Organisational.

Appendix 1 – minor formatting

The questionnaire requires consistency in terms of grammar. That is, the positioning of question marks, brackets, full stops, etc. In particular:

Question 4(a) needs to end with “).”, rather than “.)”.

Question 5(a)(iii) second dot point needs to read “the audit committee (if applicable)?” rather than “the audit committee? (if applicable).”

Above Question 6(a) needs to end with “).”, rather than “.)”.

Above Question 7 needs to end with “).”, rather than “.)”.

Question 7 needs to end with “).”, rather than “.)”.

Exposure Draft 32/05 AUS 704 Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

[Contact person: Gina.Foong@audit.nsw.gov.au or 02 9275 7205]

Overall Comment

The proposed Auditing Standard, as a whole, is supported.

Detailed Comments

Paragraph 22

The end of the paragraph has 'and appendix' after the final sentence. This is obviously an error.

Paragraph 24 mandatory requirement

This paragraph should clarify how the auditor shall 'encourage' clear disclosure, as there is no guidance in this regard within this or other standards.

Title of the standard

While it is consistent with ISA 710, the title of the proposed standard does not give a clear indication of its purpose. A more meaningful title such as "The Auditor's Responsibilities Regarding Comparatives" is recommended.

Appendix 1

The example auditor's reports apply italics to legislation inconsistently. In some instances, the Corporations Act 2001 is shown in italics, and in others it is not. These inconsistencies should be addressed.

