

# AUSTRALASIAN COUNCIL OF AUDITORS- GENERAL

PO Box 275, Civic Square, ACT 2608 Australia

Phone & fax 1800 644102

Overseas: Phone & fax +61 2 9262 5876

E-mail: [john.rosier@audit.nsw.gov.au](mailto:john.rosier@audit.nsw.gov.au)

ABN 13 922 704 402

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The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins St West  
MELBOURNE VIC 8007  
[edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

Dear Chairman,

**ED 33/05 AUS 306 Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)**

**ED 34/05 AUS 710 Proposed Auditing Standard: Communication of Audit Matters With Those Charged With Governance (Re-issuance of AUS 710)**

**ED 35/05 AUS 802 Proposed Auditing Standard: The Auditor's Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)**

**ED 36/05 ASRE 2410 Proposed Auditing Standard: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity**

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**

None noted beyond those raised in our submission of 14 October 2005.

**MATTERS SPECIFIC TO EACH EXPOSURE DRAFT**

***ED 33/05 AUS 306 Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)***

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

**Overall Comment**

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

**Detailed Comments**

***Impact of International Exposure Draft on ISA 320 “Materiality in the Identification and Evaluation of Misstatements” issued by the IAASB***

The revised version of the International standard is yet to be issued.

The timing of the issue of the International standard will significantly impact the Australian ED, as there are significant differences between the Australian ED and the revised International Standard. The Australian ED uses the existing AUS as a base standard. If the International Standard is issued before 1 July 2006, the AUASB may need to reissue another Australian ED.

**Paragraph 13**

Recommend inserting a comma after the word “ordinarily”.

**Paragraph 19**

In existing AUS 306, the documentation of misstatements is included within guidance on quantitative aspects of materiality and is not a specific requirement itself.

In contrast, the exposure draft requires that misstatements below the materiality level are documented. We are unsure as to why such a requirement would be mandatory, given that the rest of the Standard does require the auditor to specifically refer to documented misstatements below materiality.

If documentation is a requirement, we believe it would be more relevant to document the ‘misstatements identified during the audit, other than those that are clearly trivial’ that are required by paragraph 27, for example, or ‘uncorrected misstatements’ required by paragraph 28.

However, in the context of the rest of the Standard, we believe that the documentation of misstatements (material or immaterial) is better treated as guidance, as per the existing AUS 306.

### Paragraph 20

This paragraph states: 'In deciding whether to document misstatements below the materiality level the auditor uses professional judgment to consider:'.

This sentence contains an implied obligation that the auditor consider several factors when deciding to document misstatements below the materiality level. Whilst the auditor uses professional judgment when considering the factors, the auditor is definitely required to consider them.

We suggest the sentence be reworded as follows: 'Pursuant to paragraph 19, in deciding whether to document misstatements below the materiality level, the auditor uses professional judgment to consider:'.

We also suggest the insertion of a comma after the term "materiality level".

### Paragraph 22

An implied obligation in the first sentence of this paragraph has been addressed via the insertion of the word 'ordinarily'. We suggest that, in this instance, the insertion of the word 'ordinarily' suggests that the auditor need not always consider the possibility that the cumulative result of misstatements below the materiality level could have a material affect on the financial report. We believe that this possibility should always be considered and that the implied obligation should be differently addressed.

Ideally, the implied obligation would be anchored to a mandatory requirement; however, no appropriate mandatory requirement exists. That is, significant mandatory requirements exist in respect of qualitative factors (paragraph 24) but the only mandatory requirement in respect of quantitative factors relates to documentation of misstatements below the materiality level. There is no mandatory requirement to assess impacts at this point of the Standard. As such, we believe the only solution is to elevate the first sentence of paragraph 22.

### Paragraph 29

This paragraph states that the auditor is required to assess 'quantitative or qualitative materiality.' This suggests the auditor can choose to assess either quantitative or qualitative materiality, but is not required to assess both. Paragraph 23 of the proposed Auditing Standard clearly expresses that both quantitative and qualitative factors must be assessed.

We suggest the first sentence of paragraph 29 be amended such that it states: 'Pursuant to paragraph 28 of this Auditing Standard, the auditor is required, when reviewing individual misstatements, to assess quantitative and qualitative materiality.'

### Paragraph 35

Point (a) of this paragraph requires that the auditor express a modified opinion if 'those charged with governance refuse to adjust the financial report.'

We have identified two issues with this requirement. Firstly, it is not clearly stated how the financial report should be adjusted; rather, it is implied (via paragraph 34) that the financial report should be adjusted for material identified misstatements. Accordingly, we suggest the words ‘for identified misstatements’ be added to the end of point (a).

Secondly, point (a) introduces ‘those charged with governance’, but up to this point, per the requirements of the proposed Standard, only management has been informed of the identified misstatements. That is, those charged with governance are very likely to refuse to adjust the financial report for identified misstatements about which they know nothing.

We suggest that either point (a) be amended such that ‘management refuse to adjust’, or paragraph 34 be amended such that the auditor would request ‘those charged with governance’ to adjust the financial report.

#### Paragraph 38

We suggest the insertion of a full-stop after the words “as a whole (paragraph 24)”.

***ED 34/05 AUS 710 Proposed Auditing Standard: Communication of Audit Matters  
With Those Charged With Governance (Re-issuance of AUS 710)***

[Contact person: [Terry.Hogan@audit.nsw.gov.au](mailto:Terry.Hogan@audit.nsw.gov.au) or 02 9275 7217]

**Overall Comment**

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

**Detailed Comments**

*Main Changes*

Point 4 of the main changes from existing AUS 710 (May 1999) refers to the Audit Risk Standards as comprising AUS 402, AUS 406 and AUS 502. However, other proposed Auditing Standards refer to the Audit Risk Standards as also including AUS 202 'Objective and General Principles Governing an Audit of a Financial Report'. For consistency, the same Auditing Standards should be referred to in all proposed Auditing Standards.

*Paragraph 10 & Footnote*

Paragraph 10 and footnote 1 on the structure of governance in different countries seems unnecessary. In addition, incorrect grammar occurs in the second sentence, which states: '...while senior **executives is** responsible for the management function.' The word 'is' should be replaced with 'are'.

*Paragraph 10*

Reference to “supervisory board” in this paragraph has been removed on the basis that it is not applicable in Australia. In the public sector we have “advisory boards” and these might be equivalent to “supervisory boards”. Suggest that the example in the old standard regarding advisory boards be retained in the final version of the Standard.

Also, we suggest the replacement of ‘is’ with ‘are’ in order for the paragraph to read as follows: “... while senior executives are responsible for the management function”.

Also, we recommend inserting a comma after the words ‘other countries’.

*Paragraph 12*

In paragraph 12 the use of the word 'ordinarily' is inappropriate as it implies that the auditor is not always required to come to an agreement. We suggest the sentence be reworded such that it is anchored to the mandatory requirement in paragraph 9. Suggested wording is as follows:

When the entity's governance structure is not well defined, or those charged with governance are not clearly identified by the circumstances of the engagement, or by legislation, the auditor pursuant to paragraph 9 of this Auditing Standard, comes to an

agreement with the entity about with whom audit matters of governance interest are to be communicated.'

In addition, the word organisation has been spelt with a 'z' in this paragraph. We recommend the use of the Australian spelling rather than the American.

#### Paragraph 13

Recommend paragraph 13 include "the auditor's" after "come to" in first sentence.

#### Paragraph 16

In paragraph 16 the opening sentence does not make sense. It states: 'Audit matters of governance interest ordinarily such matters include the following:'

We suggest rewording as follows: 'Audit matters of governance interest ordinarily include such matters as the following:'

Paragraph 16 second last dot point wording needs to be improved. Suggest delete opening phrase "other matters warranting attention by those charged with governance such as" and the last two words "involving management".

#### Paragraph 17

Paragraph 17 uses the word "aggregated". Although this word appears in ISA260, it does not appear to be correct and we suggest a better choice is "identified".

#### Paragraph 19

Paragraph 19 contains two implied obligations on auditors. An attempt has been made to address these via the insertion of: 'pursuant to paragraph 15 of this Auditing Standard' at the beginning of point (a).

We do not believe both implied obligations have been effectively addressed. In addition, the implied obligation in point (b) cannot be anchored to a mandatory requirement within the Standard. As such, we suggest the requirement in point (b) be elevated. This would entail elevation of paragraph 19 in its entirety and we believe this is appropriate.

#### Paragraph 27

We believe the implied obligation within paragraph 27 would have been more effectively dealt with by use of the term 'pursuant to'. ISA 260 states: 'In order to achieve timely communications, the auditor discusses with those charged with governance the basis and timing of such communications.' This suggests that the auditor should discuss in every instance, whereas 'ordinarily' suggests instances where such discussions would not be required. We suggest the following sentence replace the existing first sentence of the paragraph: 'In order to achieve timely communications, the auditor, pursuant to paragraph 25 of this Auditing Standard, discusses with those charged with governance the basis and timing of such communications.'



### Paragraph 34

We believe that paragraph 34 contains an implied obligation, in that the auditor is instructed to not regard communications as a substitute for a modification to the auditor's report. In addition, the contents of this paragraph cannot be anchored to another paragraph within the Auditing Standard. Accordingly, we suggest the following rewording of the paragraph to clearly remove any implied obligation.

“Communications between the auditor and those charged with governance are not a substitute for a modification of the auditor's report, as described in AUS 702 Part B Modifications to the Independent Auditor's Report”.

### Paragraph 38

As per the Table of Proposed Changes, the words ‘such as’ should be replaced with ‘extend to’ in order for the paragraph to read correctly.

### 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 footnotes from:

- Paragraph 10, as the guidance in the Standard is sufficient. Auditors are able to identify relevant frameworks for good corporate governance.
- Paragraph 21, as the guidance in the Standard is sufficient. Auditors are able to identify the applicable code of professional conduct.
- Paragraph 34, as auditors are familiar with Auditing Standards.
- Paragraph 36, as auditors can identify the relevant professional accounting body.

In the case of paragraph 16, the footnoted guidance should be incorporated into paragraph 16.

***ED 35/05 AUS 802 Proposed Auditing Standard: The Auditor's Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)***

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

**Overall Comment**

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

**Detailed Comments**

Paragraph 4

We suggest the insertion of a comma in the first bullet point, after the word 'accounting' and before 'such'. This change would mean the punctuation is consistent across all bullet points. That is, the second bullet point has a comma at the equivalent point.

The last bullet point refers to summarised financial reports, that is, the subject is plural. However, the other bullet points refer to their subject in the singular, for example, a financial report and a component of a general purpose or special purpose financial report. For consistency, the last bullet point should state: 'A summarised financial report'.

Paragraph 9(e)

Paragraph 9(e) could be reworded by removing the words "the auditor" has in line 2.

Paragraph 21

The last word of the second sentence is 'uses'. This is a departure from ISA 800 where the equivalent word is 'users'. 'Users' is the appropriate word given the context of the sentence and we suggest replacement of the word 'uses' accordingly.

Paragraphs 23 and 24

These paragraphs include requirements and guidance from the existing AUS 802 (paragraphs .05 and .06) that do not appear in ISA 800. We believe that some of the information in these paragraphs is unnecessary, and that alternative information would be of greater use.

Paragraph 23 requires that auditors consider whether a special purpose financial report (SPFR) is actually a general purpose financial report (GPFR).

Presently, paragraph 23 requires the auditor to consider a possibility, but no requirement exists for the auditor to do anything further. We suggest the Standard should explain the action that the auditor should take if the auditor concludes that report is a GPFR. This explanation should probably replace paragraph 24.

Paragraph 25

The equivalent paragraph in ISA 800 of paragraph 25 in the proposed Auditing Standard has two sentences and two separate requirements. The first sentence requires that the alternative comprehensive basis of accounting be identified in the auditor's report. The second sentence requires that an opinion state whether or not the information is actually in accordance with that basis.

However, in the proposed Auditing Standard, the second sentence has been deleted. That is, paragraph 25 does not require that an opinion state whether or not the information is actually in accordance with that basis.

Whilst the requirement is somewhat addressed via the guidance in paragraph 26 and paragraph 13, we recommend the proposed deletion does not occur. That is, the following sentence be added to the black letter requirements in paragraph 25:

‘The opinion should state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting.’

This sentence has greater clarity of requirement. We believe it instructs the auditor to give an opinion on the ‘identified basis of accounting’, whereas paragraph 13 refers only to the requirement to give an opinion in respect of the ‘applicable financial reporting framework’.

A financial report prepared in accordance with an alternative comprehensive basis of accounting, is not prepared in accordance with the applicable financial reporting framework. As such, we believe a gap exists in the proposed Auditing Standard, which is a departure from ISA 800. This can be addressed via our suggestion above.

(See also comments in respect of paragraph 34)

#### Paragraph 26

“Pursuant to...” has been inserted twice within this paragraph, presumably to address implied obligations. However, we do not believe that any implied obligations existed within the original wording of the paragraph.

The paragraph simply describes the terms used to express the auditor's opinion, thereby providing guidance to paragraph 25. In the original wording, there is no verb in the context of the auditor and so no implied obligation.

We suggest paragraph 26 should state: ‘The terms used to express the auditor's opinion...equivalent terms. The term used to express the auditor's opinion...’

#### Paragraph 34

The first sentence of the equivalent to paragraph 34 in ISA 800 requires that the applicable financial reporting framework be identified in the auditor's report. The second sentence requires that an opinion state whether or not the information is actually in accordance with that framework.

The deletion of the second sentence means that an opinion as to whether the information is in accordance with the framework is not required. We could not identify where an alternative obligation was attempted. We recommend the proposed deletion does not occur.

(See also paragraph 25)

#### Paragraph 36

This paragraph states that the auditor shall “refer” to the qualification. Given the context of the requirement we have assumed this sentence directs the auditor “to refer” to the qualification in their auditor’s report. To avoid the need to make such an assumption, we suggest the sentence should be rewritten as follows:

‘When a modified opinion on the entire financial report has been expressed, the auditor shall refer to the modification in the auditor’s report on the component if:’

No guidance exists as to how the auditor should refer to the qualification in their auditor’s report. To ensure consistent application and to assist auditors with compliance, we strongly suggest the insertion of explanatory guidance on the requirement to ‘refer’ to the qualification.

In addition, we believe that part (b) of this paragraph includes an obligation that may be beyond the auditor’s control.

The circumstances of the presentation of the auditor’s report may change after the auditor has provided the report. As such, the auditor may breach this requirement as a result of actions taken by a third party beyond the auditor’s control.

We suggest that guidance be included within the Standard on the steps an auditor may reasonably be expected to take to ascertain the likely circumstances of the presentation of the auditor’s report.

#### Paragraph 37

Paragraph 37 refers to components that would not constitute a major portion of the financial report. The last sentence of this paragraph is not black letter in ISA 800, and yet it has been elevated in the proposed Auditing Standard. (We note that this elevation has not been noted in the Table of Proposed Changes).

The term ‘major portion’ is not defined within this or other Auditing Standards. However, the last sentence of the paragraph does infer a meaning of the term.

We believe this last sentence actually clarifies what ‘constitutes a major portion’ of a financial report. That is, if the portion is large enough that, in the auditor’s judgement, the report on the component may overshadow the report on the full financial report, then it is a ‘major portion’.

We recommend the last sentence be repositioned as guidance and expanded upon, applying the Drafting Rules. This guidance would then ensure paragraph 37 could be consistently applied.

#### Paragraph 40

We disagree with the wording of paragraph 40 on the basis that different members of ACAG had different interpretations of its intent.

Some members considered that the use of the word 'however' at the beginning of the paragraph suggests that paragraph 40 is anchored to paragraph 39. This anchoring is inappropriate as paragraph 39 contains a requirement relating to pre-engagement activities, and paragraph 40 contains guidance on the engagement itself.

We suggest the following alternative wording, which will overcome any confusion:

'When the requirements of paragraph 39 apply, but there are particular matters forming part of the engagement that are outside the auditor's expertise, the auditor, in accordance with AUS 606 *'Using the Work of an Expert'*, would consider using the work of an expert.'

Our suggestion also addresses the wording error within paragraph 40. That is, it states "... pursuant to paragraph AUS 606 ...".

#### Paragraph 45

The paragraph originally stated:

'Summarised financial reports are presented in considerably less detail than annual audited financial reports. Therefore, such financial reports **need to clearly** indicate the summarised nature of the information and caution the reader...' (Bolding added)

The Exposure Draft proposes that 'need to clearly' be substituted with 'ordinarily' with the intent of removing an implied obligation. However, we do not believe an obligation existed in the first place. The paragraph is describing the requirements of summarised financial reports, the responsibility for which, is not the auditor's. The only obligation rests with the preparer of the financial information.

To reduce the requirement to an option means that a financial report that does not clearly indicate its summarised nature, nor caution the reader, is acceptable to the auditor. Based on paragraph 48(g), the auditor clearly expects that such disclosure should occur.

In addition, if this disclosure does not occur, the exposure draft contains no requirements or guidance for the auditor. That is, if the disclosure does not occur, what action should the auditor take?

Where the financial report is prepared in accordance with an alternative framework, and appropriate disclosures are not made, paragraph 28 of the exposure draft requires

that the auditor issue a suitably modified opinion. We consider that similar requirements and guidance are necessary for when disclosures regarding summarised reports are not made.

#### Paragraph 46

This paragraph contains another instance where ‘ordinarily’ has been inappropriately substituted for ‘need to be’. We disagree with this change for the same reasons as stated in respect of paragraph 45.

#### Paragraph 49

Despite no mention in the Table of Proposed Changes, the first sentence of this paragraph is additional to the guidance provided within ISA 800. This new guidance is about restrictions on auditor’s reports and states:

‘When relevant, the auditor’s report ordinarily identifies any specific restriction on the distribution of the auditor’s report or on those entitled to rely upon it.’

We believe this is very similar to the guidance in paragraph 8 that states:

‘To avoid the possibility of the auditor’s report being used for purposes for which it was not intended, the auditor ordinarily indicates in the report the purpose for which the report is prepared and any restrictions on its distribution and use’.

We believe the incremental guidance provided by the first sentence of paragraph 49 is minimal. Accordingly, we do not agree with the insertion of a sentence which is not part of ISA 800.

#### Insertion of Sub-Headings

We disagree with the insertion of sub-headings within the ‘General Considerations’ section of the Standard. Sub-headings are a departure from ISA 800.

We do not believe the structure of the paragraphs within the section of the Standard lends itself to sub-headings. For example, the sub-heading ‘*The Auditor’s Opinion...*’ might suggest to readers that all relevant material on the opinion is contained in that section. However, there is information relevant to opinions in other paragraphs under different sub-headings.

We do not believe the sub-headings promote clarity to an extent that justifies a departure from ISA 800.

#### Use of Footnotes

We do not support the use of footnotes to Auditing Standards. Explanations necessary for understanding and applying Standards should be included in the guidance within the Standard.

We make the following suggestions in respect of footnotes within the proposed Auditing Standard.

#### Paragraph 4

The last sentence of paragraph 4 states: 'this Auditing Standard does not apply to review of agreed-upon procedures or compilation engagements'. The footnote to the last bullet point of paragraph 4 states: that it also does not apply to concise financial report engagements. We do not agree with the different method of presenting similar information.

We therefore suggest deleting the footnote and replacing the last sentence of paragraph 4 with:

'This Auditing Standard does not address the auditor's report on a concise financial report prepared in accordance with the *Corporations Act* 2001 and AASB 1039. It also does not apply to review or agreed-upon procedures or compilation engagements.'

#### Paragraph 22

We believe that the information in the footnote should be incorporated within the guidance in paragraph 22. The first sentence of the footnote could be inserted after the first sentence of paragraph 22.

#### Heading - Reports on Summarised Financial Reports

A footnote to the heading preceding paragraph 43 contains information identical to that in the footnote to paragraph 4.

If the information in the footnote to paragraph 4 was included as within the guidance (as suggested above), then the footnote to the heading would be unnecessary.

#### Appendix 1

Appendix 2 has non-sequential numbers as bullet points. That is: 5, 6, then 3 and 7. We recommend the AUASB re-format the numbers.

#### Footnotes to the Appendices

As the Appendices do not form part of the Standard itself, we accept that footnotes are appropriate.

***ED 36/05 ASRE 2410 Proposed Auditing Standard: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity***

[Contact person: [Terry.Hogan@audit.nsw.gov.au](mailto:Terry.Hogan@audit.nsw.gov.au) or 02 9275 7217]

**Overall Comment**

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

**Detailed Comments**

Paragraph 16

We recommend the inclusion of the following sentence to become the last sentence in paragraph 16: “Pursuant to paragraph 70(f) of this Standard, the auditor is responsible for expressing a conclusion on the interim financial report based on the review”.

Paragraph 19(a)

We recommend the term “misstatement” be stated in the context of a plural, i.e. “misstatements”.

Paragraph 34

We suggest the fifth bullet point from the bottom of the page requires expansion to capture contingent assets, so the point is re-stated as follows: “Significant changes in contingent assets and contingent liabilities, including litigation or claims”.

Also, the second last bullet point omits the word ‘auditing’ from computer-assisted techniques. We recommend its inclusion, thereby correctly expanding the CAAT abbreviation.

Paragraph 43

We disagree with the way that some of the implied obligations within this paragraph have been addressed.

In the third sentence, the word ‘ordinarily’ has been inserted prior to the implied obligation that the ‘auditor inquires also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation’. The requirements in this sentence can be directly anchored to the mandatory requirements in paragraph 42(a) – they are virtually identical in wording.

Accordingly, we recommend this sentence be amended to state: ‘Pursuant to paragraph 42 of this Standard, the auditor is required to inquire also as to the feasibility...’



The fourth sentence of this paragraph has had 'pursuant to' inserted to address an implied obligation. However, we believe that the obligation within this sentence cannot be anchored to a mandatory obligation in paragraph 42.

Paragraph 42 requires the auditor to 'inquire' and 'consider the adequacy of disclosure'. Whereas, the fourth sentence of paragraph 43 requires the auditor to consider whether it is necessary to corroborate the feasibility and outcome of plans. The paragraph 43 requirement is additional to those within paragraph 42. As such, we suggest the requirements in the fourth sentence of paragraph 42 be elevated.

#### Paragraph 48

The sentence in this paragraph is missing a full stop.

#### Paragraph 50

This paragraph states: 'Accounting Standard AASB 101 *Presentation of Financial Statements*, provides requirements and guidance relating to comparative information included in a financial report.'

Given AASB 101 only applies when the applicable financial reporting framework encompasses Australian Accounting Standards, the statement in paragraph 50 may not always be true. We recommend the sentence be amended to state: '...provides requirements and guidance relating to comparative information included in a financial report prepared in accordance with Australian Accounting Standards.'

#### Paragraph 53

We believe that this paragraph contains an implied obligation to evaluate the materiality of misstatements. We recommend the first sentence be amended to state: 'Pursuant to paragraph 51 of this Standard, the auditor exercises professional judgement in evaluating the materiality of any misstatements...'

#### Paragraph 54

An implied obligation within the second sentence of this paragraph has been addressed by the insertion of the word 'ordinarily'. However, we disagree with this treatment. Paragraph 54 states:

'In so doing, ordinarily the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial report.'

Paragraph 27 of the Standard states:

'Pursuant to paragraph 26 of this Auditing Standard, the auditor is required to use professional judgement and consider qualitative and quantitative factors in determining materiality.'

Paragraph 54 states that an action is ordinarily performed, and paragraph 27 states that the same action is required. This inconsistency within the Standard should be addressed.

We suggest that paragraph 54 be amended such that the obligation in that paragraph is performed pursuant to paragraph 26.

#### Paragraph 56

The obligation within this paragraph has been addressed by inserting 'pursuant to' at the beginning of the paragraph. However, we do not believe this treatment is appropriate. Paragraph 55 contains only specific items to be included in management representations. The requirement in paragraph 56 is not one of these specific items, it is additional and separate.

We recommend elevation of the additional requirement in paragraph 56.

#### Paragraph 59

This paragraph states: 'If an amendment is necessary in the interim financial report and those charged with governance refuse to make the amendment, pursuant to paragraph 57 of this Standard, the auditor is required to consider the implications for the review report'.

Given paragraph 57 deals with action required when those charged with governance refuse to provide written representations, the link in paragraph 59 is inappropriate. We suggest the implied obligation in paragraph 59 be elevated.

#### Paragraph 61

The second sentence of the paragraph has an unnecessary space after the word 'management' and before the comma.

#### Paragraph 71

The first sentence of this paragraph states: 'In some cases, law or regulation governing the review of interim financial report...' We suggest the word 'an' be inserted between 'of' and 'interim' to correct the grammatical error.

#### Paragraph 72

This paragraph defines the term 'other circumstances', however, the term is not cross-referenced to paragraph 70(j), as suggested. We recommend that paragraph 70(j) be amended to reflect the term defined.

#### Paragraph 74

The second sentence of this paragraph contains a grammatical error in that the word 'includes' should not be plural. The amended sentence will then state: '...pursuant to

paragraph 73 of this Auditing Standard, the auditor is required to...include the necessary information in the review report.'

#### Paragraph 77

This paragraph states that 'Ordinarily a limitation of scope prevents the auditor from completing the review'. This is inconsistent with the requirements of AUS 702.

#### Appendix 1

There are two full stops at the end of second last paragraph of the scope section.

The wording of the second paragraph of the independence section could be improved. We believe that "prospective employment opportunities" is too tenuous a connection. We suggest deleting "opportunities". We also suggest replacing the repetitive words "the current or former partner or professional employee" with "that person".

#### Appendix 2

The appendix uses a variety of styles-sub dot points, use of alpha lists (in the second dot point) and straight text (first point). We suggest using sub dot-points to improve clarity.

#### Footnotes

We disagree with the use of footnotes to the guidance within the proposed Standard. We recommend that:

- Footnotes 1 and 2 be removed as the information within them is not necessary for understanding and applying the Standard
- The guidance within footnotes 3, 4, 5 and 6 be incorporated into the guidance within the Standard itself.

