

17 December 2008

The Chairman
Auditing and Assurance Standards Board
PO Box 204
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Melbourne Victoria 8007
AUSTRALIA

Via email to: edcomments@auasb.gov.au

Dear Ms Kelsall

Exposure Drafts (EDs)

- 15/08: Proposed Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards***
- 16/08: Proposed Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report***
- 17/08: Proposed Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit***
- 18/08: Proposed Auditing Standard ASA 450 *Evaluation of Misstatements Identified During the Audit***
- 19/08: Proposed Auditing Standard ASA 510 *Initial Audit Engagements – Opening Balances***
- 20/08: Proposed Auditing Standard ASA 550 *Related Parties***
- 21/08: Proposed Auditing Standard ASA 580 *Written Representations***
- 22/08: Proposed Auditing Standard ASA 720 *The Auditor's Responsibility in Relation to Other Information in Documents Containing an Audited Financial Report***

The joint accounting bodies welcome the opportunity to comment on these eight exposure drafts of revised Auditing Standards in *Clarity* format.

This letter is a response to all eight exposure drafts. Remarks should be taken as applying to all of the draft standards except where issues are unique to specific standards.

General Comments

We note that an attempt is being made to include in the *Clarity* standards guidance regarding their application to the audits of smaller entities. We are of the view that the ability of small practitioners in particular to apply this guidance in the Australian context would be significantly enhanced if it were contained in one document, such as a separate Guidance Statement issued by the Board. A statement of this kind would contain guidance additional to that found in the ISAs, as provided for example, in the recently released GS 009 *Auditing Self Managed Superannuation Funds*. Examples of additional guidance could include:

- Paragraph Aus A66.1 in ED 15/08 (Proposed ASA 200).
- Guidance on consideration of laws and regulations, given that none exists in ED 16/08 (Proposed ASA 250), such as clarifying that even though a smaller entity may lack internal controls common in larger entities it does not necessarily mean that there is a higher risk of the entity not complying with laws and regulations.

A guidance statement such as this would provide practitioners with a very useful way to conduct effective and efficient audits while complying with current audit requirements. Feedback from members is that the type of guidance contained in GS 009 is welcome in the context of audits of self-managed superannuation funds.

Representatives of the Australian Accounting Profession



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We note that the existing ASA 100 *Preamble to AUASB Standards* contains an explanation of certain words and phrases. However, the meanings to be attributed to the following words – ‘consider’, ‘evaluate’ and ‘determine’ – are not contained in either ASA 100 or the Glossary, and we believe it would be useful to introduce definitions for these, similar to the proposed drafting principles the International Ethics Standards Board for Accountants (IESBA) used in its recent Code of Ethics exposure draft, outlined below:

- Consider – to be used where the accountant is required to think about several matters
- Evaluate – to be used when the accountant has to assess and weigh the significance of a matter
- Determine – to be used when the accountant has to conclude and make a decision.

An example of where this drafting principle could be applied is to paragraphs 19, 24 and A18 of ED 16/08 (proposed ASA 250), each of which has a requirement for the auditor to ‘consider’ the need to obtain legal advice. We believe that the wording of these paragraphs should require the auditor to ‘determine’ the need, as this necessitates the auditor making and documenting a decision, which we believe is important in circumstances where there is possible non-compliance with laws and regulations. We recognise that the wording in ASA 250 reflects the wording used by the IAASB, and therefore suggest that these comments be passed onto the IAASB.

Specific Questions

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

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

We believe applicable laws and regulations have been appropriately addressed.

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

We are not aware of any such omissions.

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

We are not aware of any such situations.

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

Across the eight EDs there are over 90 new or elevated requirements with which auditors must comply. Potentially, this may significantly increase costs for auditors and the business community. Our views on this matter are expressed in our previous submission on Exposure Drafts provided to the Board in our letter of 17 October 2008.

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

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

Other Matters

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

ED 15/08 (Proposed ASA 200)

Paragraph Aus 13.1

An amending standard recently issued by the AASB makes changes throughout the suite of Australian Accounting Standards to replace the term ‘financial report’ with ‘financial statements’ to better align with IFRS terminology. Therefore, the reference to Australian Accounting Standards in

this paragraph should be removed. There is also an error in the reference to “directions declaration”, which should be “directors’ declaration”.

Paragraph Aus 22.1

We consider the wording to be redundant and should be removed. Application of the concept of materiality outlined in paragraph 6 of this standard, and described more fully in *ASA 320 Materiality in Planning and Performing and Audit* and *ASA 450 Evaluation of Misstatements Identified during the Audit*, provides sufficient details of the auditor’s requirements.

Paragraph A4

The same AASB amending standard referred to above also replaced the term ‘general purpose financial report’ with ‘general purpose financial statements’. We suggest a footnote be added stating that the Australian Accounting Standards use a different term.

Paragraph Aus A8.1

As noted above, the AASB amending standard makes changes throughout the suite of Australian Accounting Standards to replace the term ‘financial report’ with ‘financial statements’ to better align with IFRS terminology. Therefore, the reference to Australian Accounting Standards in this paragraph should be removed.

Paragraph A51

It appears that the sentence included in the final dot point should not be shown as a dot point.

ED 16/08 (Proposed ASA 250)

Paragraph 5

In footnote one, the formatting of the title of ASA 200 should all be in italic font.

Paragraph 10

In the first line, the ‘f’ should be ‘of’.

Paragraph 17

To ensure the consistent use of wording throughout all standards, we suggest that the wording of the second line of this paragraph be amended to read that the “... auditor shall not be required ...”.

ED 17/08 (Proposed ASA 320)

Paragraph Aus A1.1

Other than the first sentence of this paragraph, it is not clear that this additional Australian paragraph is required. This wording appears to merely summarise the requirements of the standard. We consider the wording to be redundant and should be removed.

ED 18/08 (Proposed ASA 450)

Paragraph Aus A1.1

Other than the first sentence of this paragraph, it is not clear that this additional Australian paragraph is required. This wording appears to merely summarise the requirements of the standard. We consider the wording to be redundant and should be removed.

Paragraph A8

We suggest inserting a footnote to refer to the whistleblower provisions in the *Corporations Act 2001* (Part 9.4AAA) as an example of where potential conflicts between the auditor's obligation of confidentiality and obligations to communicate may be complex.

ED 19/08 (Proposed ASA 510)

Paragraph A5

We are of the view that this paragraph should contain a footnote reference to APES 110.

ED 20/08 (Proposed ASA 550)

Paragraph 9 (ii)

Sub-section "a." should commence with the word "Achieves". Sub-section "b." should commence with the word "is".

ED 21/08 (Proposed ASA 580)

Paragraph 4

It appears that the first line should read 'Although written representations ...'.

Paragraph Aus A22.1

The wording of this paragraph is deficient. We recommend that the wording of the fourth line be amended to read "... auditor should communicate **to management, or where appropriate, those charged with governance**, that **it is** the **auditor's** intention to place ...".

Paragraph Aus A28.1

We suggest that Part a) of this paragraph, together with both footnote references to the Corporations Act should be moved into the mandatory section of the standard as part of paragraph 19 (for example, as reference Aus 19.1) as we feel that this paragraph, together with the footnote references to the Corporations Act are of significant importance. Part b) of this paragraph is not required as it does not add anything beyond what is already stated in Paragraph 19(c).

ED 22/08 (Proposed ASA 720)

Given that each of the following comments relate to the way in which the ISA's are worded, these comments should be passed onto the IAASB.

Paragraph 6

This paragraph states that the auditor reads the other information for the sole purpose of identifying material inconsistencies, if any, with the audited financial report. This statement highlights only one of the two reasons for reading the other information; the second reason being to identify material misstatements of fact (as described in paragraphs 14 to 16 (inclusive)). We believe the paragraph should be amended accordingly with an additional line containing the AUS prefix.

Paragraph 9

In most situations we are of the view that an auditor would first communicate with those charged with governance, before modifying the audit opinion, should management refuse to make a necessary revision to an audited financial report. We believe this section should be amended with an AUS paragraph.

Paragraphs A6, A9 and A11

The wording of these paragraphs is inconsistent with the wording in other standards (e.g., ASA 250) in relation to seeking legal advice. These paragraphs highlight that the auditor may take legal advice, compared with wording in other paragraphs which suggests that the auditor may consider the need to obtain legal advice. We consider that wording should be amended to be consistent with wording in other standards.

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

Yours sincerely



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