

EXPOSURE DRAFT

ED 30/05
(December 2005)

Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)

Prepared and Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Proposed Auditing Standard: *Using the Work of Another Auditor (Re-issuance of AUS 602)*

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 31 January 2006. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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This Exposure Draft is available on the AUASB website: www.auasb.gov.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until 31 January 2006 by contacting:

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PREFACE

Reasons for Issuing ED 30/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 602) *Using the Work of Another Auditor* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

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Main Proposals

The proposed Auditing Standard establishes mandatory requirements and provides explanatory guidance when an auditor uses the work of another auditor on the financial information of one or more components included in the financial report of an entity.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 602 (July 2002)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 602 (July 2002), is that in this proposed Auditing Standard:

1. the word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should'; and
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.

A Table of Proposed Changes is provided as an attachment to the Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 602) *Using the Work of Another Auditor* by 31 January 2006. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard <<>> *Using the Work of Another Auditor* as set out in paragraphs 1 to 28, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD

Using the Work of Another Auditor

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance when an auditor, reporting on the financial report of an entity, uses the work of another auditor on the financial information of one or more components included in the financial report of the entity. This Auditing Standard does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor. Further, when the principal auditor concludes that the financial report of a component is immaterial, the mandatory requirements in this Auditing Standard do not apply. When, however, several components, immaterial in themselves, are together material, the procedures outlined in this Auditing Standard would need to be considered.
- 5 **When the principal auditor uses the work of another auditor, the principal auditor shall determine how the work of the other auditor will affect the audit.**
- 6 "Principal auditor" means the auditor with responsibility for reporting on the financial report of an entity when that financial

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report includes financial information of one or more components audited by another auditor.

- 7 “Other auditor” means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial report audited by the principal auditor. Other auditors include affiliated firms, whether using the same name or not, and correspondents, as well as unrelated auditors.
- 8 “Component” means a division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in the financial report audited by the principal auditor.

Acceptance as Principal Auditor

- 9 **The auditor shall consider whether the auditor’s own participation is sufficient to be able to act as the principal auditor.**
- 10 For this purpose the principal auditor ordinarily considers the:
- (a) materiality of the portion of the financial report which the principal auditor audits;
 - (b) principal auditor’s degree of knowledge regarding the business of the components;
 - (c) risk of material misstatements in the financial report of the components audited by the other auditor; and
 - (d) performance of additional procedures as set out in this Auditing Standard regarding the components audited by the other auditor resulting in the principal auditor having significant participation in such audit.
- 11 In Australia, the *Corporations Act 2001*¹ provides the principal auditor powers to obtain information from controlled entities and

¹ The *Corporations Act 2001*, sections 323A and 323B provides as follows:
Section 323A Auditor’s power to obtain information from controlled entity
(1) An auditor who audits or reviews a financial report that includes consolidated financial statements:
(a) has a right of access at all reasonable times to the books of any controlled entity; and
(b) may require any officer of the entity to give the auditor information, explanations or other assistance for the purposes of the audit or review.
A request under paragraph (b) must be a reasonable one.

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compels the other auditor to provide appropriate access to the principal auditor.

The Principal Auditor's Procedures

- 12 When planning to use the work of another auditor, the principal auditor shall consider the professional competence of the other auditor in the context of the specific assignment.**
- 13 Some of the sources of information for this consideration could be common membership of a professional organisation, common membership of, or affiliation, with another firm or reference to the professional organisation to which the other auditor belongs. These sources can be supplemented when appropriate by inquiries with other auditors, bankers, etc. and by discussions with the other auditor.
- 14 The principal auditor shall perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.**
- 15 Pursuant to paragraph 14 of this Auditing Standard, the principal auditor is required to advise the other auditor of:
- (a) the independence requirements regarding both the entity and the component and obtain written representation as to compliance with them;
 - (b) the use that is to be made of the other auditor's work and report and make sufficient arrangements for the coordination of their efforts at the initial planning stage of the audit;
 - (c) matters such as areas requiring special consideration, procedures for the identification of intercompany

Section 323B Controlled entity to assist auditor

(1) If a company, registered scheme or disclosing entity has to prepare a financial report that includes consolidated financial statements, an officer or auditor of a controlled entity must:

- (a) allow the auditor for the company, scheme or entity access to the controlled entity's books; and*
- (b) give the auditor any information, explanation or assistance required under section 323A.*

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- transactions that may require disclosure and the timetable for completion of the audit; and
- (d) the accounting, auditing and reporting requirements and obtain written representation as to compliance with them.
- 16 The principal auditor might also, for example, discuss with the other auditor the audit procedures applied, review a written summary of the other auditor's procedures (which may be in the form of a questionnaire or checklist) or review working papers of the other auditor. The principal auditor may wish to perform these procedures during a visit to the other auditor. The nature, timing and extent of audit procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of previous audit work of the other auditor.
- 17 The principal auditor may conclude that it is not necessary to apply procedures such as those described in paragraph 16 because sufficient appropriate audit evidence has previously been obtained that acceptable quality control policies and procedures are complied with in the conduct of the other auditor's practice. For example, when they are affiliated firms the principal auditor and the other auditor may have a continuing, formal relationship providing for procedures that give that audit evidence such as periodic inter-firm review, tests of operating policies and procedures and review of working papers of selected audits.
- 18 The principal auditor shall consider the significant findings of the other auditor.**
- 19 The principal auditor may consider it appropriate to discuss with the other auditor and those charged with governance and management of the component, the audit findings or other matters affecting the financial information of the component and may also decide that supplementary tests of the records or the financial information of the component are necessary. Such tests may, depending on the circumstances, be performed by the principal auditor or the other auditor.
- 20 Pursuant to paragraph 18 of this Auditing Standard, the principal auditor is required to document in the audit working papers:
- the components whose financial information was audited by other auditors, their significance to the financial report of the entity as a whole, the names of the other auditors and

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any conclusions reached that individual components are immaterial; and

- the procedures performed and the conclusions reached.

For example, working papers of the other auditor that have been reviewed would be identified and the results of discussions with the other auditor would be recorded. However, the principal auditor need not document the reasons for limiting the procedures in the circumstances described in paragraph 17, provided those reasons are summarised elsewhere in documentation maintained by the principal auditor's firm.

Cooperation Between Auditors

- 21 The other auditor, knowing the context in which the principal auditor will use the other auditor's work, shall cooperate with the principal auditor.**
- 22 For example, the other auditor would bring to the principal auditor's attention any aspect of the other auditor's work that cannot be carried out as requested. Similarly, subject to legal and professional considerations, the other auditor will need to be advised of any matters that come to the attention of the principal auditor which may have an important bearing on the other auditor's work.

Reporting Considerations

General

- 23 When the principal auditor concludes that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor shall issue a modified auditor's report because there is a limitation in the scope of the audit.**
- 24 The principal auditor has sole responsibility for the opinion expressed on a consolidated financial report. If, having examined the financial reports and auditor's reports of components for which the principal auditor has not acted as auditor, the principal auditor is not satisfied that the financial reports of any of these components are in form or content appropriate for the purpose of the preparation of a consolidated financial report, or if the principal auditor has not received satisfactory information and explanations to form such opinion, pursuant to AUS 702 Part B *Modifications to the*

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*Independent Auditor's Report*², the principal auditor is required to modify the auditor's report on the consolidated financial report.

- 25 If the other auditor issues, or intends to issue, a modified auditor's report, pursuant to paragraph 23 of this Auditing Standard, the principal auditor is required to consider whether the subject of the modification is of such a nature and significance, in relation to the financial report of the entity on which the principal auditor is reporting, that a modification of the principal auditor's report is required. When the other auditor of a component issues a modified auditor's report, the principal auditor may have a statutory obligation to disclose details of that modification in the auditor's report on the consolidated financial report.

Reference to Another Auditor in the Auditor's Report

- 26 The principal auditor shall not refer to the work of another auditor in an auditor's report unless required by legislation or as part of a modification.**

- 27 Such a reference may be misunderstood to be a modification of the auditor's opinion or a division of responsibility, neither of which is intended.

Conformity with International Standards on Auditing

- 28 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 600, *Using the Work of Another Auditor* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The differences between this Auditing Standard and ISA 600 are:

- ISA 600 includes a Public Sector Perspective section whereas this Auditing Standard does not as it is sector neutral.
- This Auditing Standard includes the following specific mandatory requirement and related guidance, which is not included in ISA 600:
 - ◆ The principal auditor shall not refer to the work of another auditor in an auditor's report unless

² The proposed Auditing Standard, AUS 702 is being reissued as two separate standards: Part A - *The Independent Auditor's Report on a Complete General Purpose Financial Report* and Part B - *Modifications to the Independent Auditor's Report*.

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required by legislation or as part of a qualification (paragraph 26).

Compliance with this Auditing Standard enables compliance with ISA 600.

Table of Proposed Changes from AUS 602 <i>Using the Work of Another Auditor</i>
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Base Standard

ISA 600 *Using the Work of Another Auditor*.

Table of Proposed Changes from the Base Standard

The table below details the proposed changes from the base standard, ISA 600 (excluding changes to reflect Australian terminology and references to Australian Auditing Standards).

Paragraph No. in Proposed Exposure Draft	Existing Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1, 2	Requirement	New Application paragraphs.
3	Requirement	Re-position Operative Date paragraph.
5, 9, 12, 14, 18, 21, 23, 26	Requirement	Replace “should” with “shall”.
10	Guidance	Insert “ordinarily,” to remove implied obligations.
15, 20, 24, 25	Guidance	Insert: “pursuant to paragraph X of this Auditing Standard the auditor is required to” or “pursuant to AUS X the auditor is required to”.
24, 25, 27	Guidance	Replace ISA guidance with existing AUS 602 material to adapt to the Australian regulatory environment and amend terminology to make it consistent with proposed Auditing Standards.
26	Requirement	Reinstate paragraphs from the existing AUS 602 to reflect requirements in the Australian regulatory environment with terminology consistent with proposed Auditing Standards.

Paragraph No. in Proposed Exposure Draft	Existing Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
19	Guidance	Insert “those charged with governance and management” where the auditor communicates with management.
11	Guidance / Footnote	<p>Insert explanatory guidance of the legislative requirements in Australia: In Australia the <i>Corporations Act 2001</i>, provides the principal auditor powers to obtain information from controlled entities and compels the other auditor to provide appropriate access to the principal auditor.</p> <p>Insert as footnote the relevant section out of the Corporations Act 2001: The Corporations Act 2001, sections 323A and 323B provides as follows: <i>Section 323A Auditor’s power to obtain information from controlled entity</i> <i>(1) An auditor who audits or reviews a financial report that includes consolidated financial statements:</i> <i>(a) has a right of access at all reasonable times to the books of any controlled entity; and</i> <i>(b) may require any officer of the entity to give the auditor information, explanations or other assistance for the purposes of the audit or review.</i> <i>A request under paragraph (b) must be a reasonable one.</i></p> <p><i>Section 323B Controlled entity to assist auditor</i> <i>(1) If a company, registered scheme or disclosing entity has to prepare a financial report that includes consolidated financial statements, an officer or auditor of a controlled entity must:</i> <i>(a) allow the auditor for the company, scheme or entity access to the controlled entity’s books; and</i> <i>(b) give the auditor any information, explanation or assistance required under section 323A</i></p>
16	Guidance	Insert “audit” in front of procedures.

Paragraph No. in Proposed Exposure Draft	Existing Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
15	Guidance	Restate part of the paragraph as a separate item.
23	Requirement	Replace: “express a qualified opinion or disclaimer of opinion” with “issue a modified auditor’s report”.
28	Requirement	Replace “qualification” with “modification”.