

Ms Merran Kelsall
Chairman
Australian Auditing and Assurance Standards Board
PO Box 204
Collins Street
Melbourne VIC 8009

30 June 2015

Dear Ms Kelsall

Re: Exposure Draft ED 01/15 Enhancements to Auditor Reporting

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on Exposure Draft ED 01/15 *Reporting on Audited Financial Reports – New and Revised Auditor Reporting Standards and Related Conforming Amendments* incorporating the following:

1. Proposed revised Auditing Standards:
 - ASA 700 *Forming an Opinion and Reporting on a Report*
 - ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*
 - ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
 - ASA 570 *Going Concern*
 - ASA 260 *Communicating with Those Charged with Governance*
2. Proposed new Auditing Standard:
 - ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
3. Proposed conforming amendments to various Auditing Standards:
 - ASA 210 *Agreeing the Terms of the Engagement*
 - ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*
 - ASA 230 *Audit Documentation*
 - ASA 510 *Initial Audit Engagements – Opening Balances*
 - ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*
 - ASA 580 *Written Representations*

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

- *ASA 600 Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*
- *ASA 710 Comparative Information – Corresponding Figures and Comparative Financial Reports*

We support having one set of international standards on auditing that are used by practitioners worldwide in the audit of a financial report. Accordingly, we support the issuance of the proposed revised, new and amending standards as part of the harmonisation project and conformity with International Standards on Auditing.

One of the key functions of the AUASB under the ASIC Act is to make standards under section 336 of the Corporations Act 2001. The international standards recognise there may be a need to amend for the requirements of local law and regulation therefore it is our view that the Australian Auditing standards should include details of the requirements of the Corporations Act 2001, as relevant, in the individual standards. We believe the inclusion of these paragraphs serve the public interest by clearly linking relevant legislative and auditing standard requirements and guidance. Accordingly we do not support the proposed removal of the *Corporations Act 2001* paragraphs from the standards.

Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 01/15. In addition, we have included specific comments relating to the wording of the proposed standards within ED 01/15 in Appendix 2.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 7288.

Yours sincerely



Cathlin Mc Cabe

Partner

Deloitte Touche Tohmatsu

Appendix 1 – Response to specific questions posed within ED 01/15

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

Refer below to our responses to questions 2 and 5.

2. *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?*

Nothing noted.

3. *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 standard? If there are significant costs, do these outweigh the benefits to the users of the audit services?*

The benefits arising from compliance with the main changes to the requirements of the proposed standards include improved transparency and relevant entity-specific information which leads to an increase in confidence, trust and credibility of the audit. In addition, we believe the proposed changes may increase audit quality with auditors placing renewed focus on the key audit matters and increasing the extent and robustness of communications with those charged with governance and users of the financial report. In addition, there may be an improvement in the quality of financial reports as entities improve their disclosure in areas that the auditor will be discussing in the key audit matters.

The costs associated with the proposed changes to the standards predominantly relate to time costs for the auditors associated with implementation costs such as developing and determining appropriate firm policies and procedures as well as ongoing costs including the drafting and review of the key audit matters paragraphs and communicating with management and those charged with governance. In addition, there may be costs to the business community due to time costs that will be incurred by entity management and those charged with governance in the initial implementation stage as well as, to a lesser extent, from an ongoing perspective.

There is also a risk that over time the benefits associated with the inclusion of key audit matters are diluted and less meaningful as the information disclosed becomes less entity-specific and more ‘boiler plate’ in nature and content.

It is difficult to assess definitively at this stage whether the costs will outweigh the benefits or vice versa, however it is hoped and expected over time that the benefits will outweigh the costs.

4. *Is there support for permitting the auditor to choose whether to locate the auditor’s responsibilities section in either the body of the auditor’s report or in an accompanying appendix to the auditor’s report?*

We believe that the auditor’s responsibilities section is an integral and important section of the auditor’s report and provides clarity and understanding to users with respect to the scope of the audit engagement. As a result, we believe that the auditor’s responsibilities section should be incorporated within the body of the auditor’s report, otherwise there is the risk that it will not be read by users and thus the context of the auditor’s report is not known or properly understood.

We do not support the inclusion of the auditor’s responsibilities section in an accompanying appendix to the auditor’s report.

5. *Is the removal of (only) “Aus” paragraph references to the Corporations Act 2001 – currently included within the requirements and application and other explanatory material – supported?*

If removal of existing references is not supported, respondents are asked to indicate their preference for locating the re-instated material within the standard:

- *In the requirements and application and other explanatory material (as applicable) of the proposed standard; or*

- *By inclusion of a cross-referenced listing in an appendix to the standard?*

As noted above, we do not support the removal of the *Corporations Act 2001* Aus paragraph references. Based on our experience, the auditing standards are the auditor's primary reference material when performing an audit or researching an audit related topic. Thus, we believe the inclusion of these paragraphs is in the public interest as it incorporates the relevant legislative requirements of the *Corporations Act 2001* in the same location as the auditing standard requirements and guidance.

In order to be the most effective, our preference is to embed the *Corporations Act 2001* references within the relevant requirements and application and other explanatory material of the standard, not via a cross-reference to an appendix in the standards.

6. *Should the name of the engagement partner be disclosed only when required by law or regulations; or for all engagements?*

Given that there is a specific requirement to disclose the name of the engagement partner for *Corporations Act 2001* engagements and it is also currently not uncommon for this to occur for other Non-Corporations Act engagements, we don't believe there needs to be a restriction to only disclose the name of the engagement partner when it is required by law or regulations. We note that naming the engagement partner is a practical and useful means to identifying the particular individual with overall responsibility for the audit engagement and that within the Australian environment there is nothing to indicate that there would be specific safety or security concerns in doing this.

7. *Whether, in the future, ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report should be mandated in the audit of entities in addition to listed entities; and if so:*

- *Which entities; and*
- *What criteria should be used to identify such entities?*

We believe that the mandated requirements to communicate key audit matters should be restricted to listed entities as these are completely new requirements and it is currently unknown the extent of work required, the reaction of entities and users and whether the benefits are going to be realised. As a result, it is difficult to recommend at this stage whether the requirements should be mandated for other entities and if so for which ones and how this would be determined.

We acknowledge that it may be appropriate for the key audit matter requirements to be mandated for other entities (other than listed entities) in the future, however we believe that this should be considered only after the requirements have been in operation for two years (or more) for listed entities, so that a thorough post implementation review can be performed with input from auditors, entities and users.

8. *Do respondents support the retention of the "relevant period" concept set out in paragraph Aus 13.2 of ASA 570, which extends the auditor's going concern assessment period beyond the financial report's balance date to that of the expected date of the auditor's report?*

We support the retention of the "relevant period" concept as this is considered to be very important and practical to directly and quite clearly link the auditor's assessment of going concern for the current year financial report to the expected timing of the following period's assessment being approximately 12 months from the date of the current year's auditor's report in the case of an annual financial report.

9. *Are there any other significant public interest matters that constituents wish to raise?*

Nothing further of significance noted.

Appendix 2 – Other specific comments relating to proposed standards within ED 01/15

ED 01/15 Section or Paragraph	Comment
Pervasive across various proposed standards	
Appendix – Illustrative Auditor's Reports	We recommend that within the circumstances box for the illustrative auditor's reports, reference is made that the applicable year end is 30 June 20X1. Or alternatively, the year end date within the illustrative auditor's reports is updated to be more generic such as '[date]'.
Appendix – Illustrative Auditor's Reports	Although we acknowledge that this is not a key focus of the illustrative auditor's reports, the way they are currently drafted may suggest that the only time a group audit is appropriate is when a consolidated financial report is prepared by the entity, which is not the case and is one of the common misunderstandings associated with ASA 600.
Appendix – Illustrative Auditor's Reports	<p>With respect to the wording currently included in the illustrative auditor's reports relating to the auditor's compliance with ethical and independence requirements, it isn't clear why the proposed independence statement is different in structure to the wording included in ISA 700 and we are unable to find a specific reason for this within the ED. As a result, the proposed statement appears longer and more complicated and we recommend that the wording be changed to be consistent with the ISA 700 wording structure as follows:</p> <p><i>"We are independent of the [Company/Entity/Group] in accordance with the [Corporations Act 2001 and the] Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) and we have also fulfilled our other ethical responsibilities in accordance with the Code."</i></p> <p>However, if the proposed structure of the wording is maintained, we recommend for <i>Corporations Act 2001</i> engagements that the wording be updated to be as follows:</p> <p><i>"We are independent of the [Company/Group] in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) and we have also fulfilled our other ethical responsibilities in accordance with the Code."</i></p> <p>Our rationale is that this is the technically correct reference to the auditor's independence requirements in the <i>Corporations Act 2001</i> that are defined in the law within section 9 as the "auditor independence requirements of this Act".</p> <p>In addition, we believe that reference to both the international (Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants) and local (APES 110) standards should be permissible or at least at the discretion of the auditor as the IESBA standard is recognised globally.</p>
Explanatory Memorandum (Document 1 of 8)	
Appendix 1	As indicated above, we support the inclusion of the <i>Corporations Act 2001</i> references within the proposed auditing standards and as such, we do not agree with the removal of the "Aus" paragraphs listed within Appendix 1.
ASA 700 (Document 2 of 8)	
28	At the start of the sub-section heading 'Addressee' above paragraph 28 there are four random dashes that appear to be a typo.
Appendix – Illustration 2A	Given that this example relates to a group audit, the description of the auditor's responsibilities within the shaded box should be updated to include the specific information associated with a group audit engagement as per paragraphs 38(c)(i)-(iii) of ASA 700.

Appendix – Illustration 3	We recommend that the circumstances box be updated to refer to the fact that this illustration relates to a Non-Corporations Act engagement.
Appendix – Illustration 3	Within the ‘Other Information’ section of this illustration it currently refers to the “...Entity’s annual report...” – we wonder how appropriate and common this would be given that it is a Non-Corporations Act example. We suggest that this be updated to refer to other information that is more appropriate in the circumstances or the whole ‘Other Information’ section should be removed.
Appendix – Illustration 3	Within the ‘Auditor’s Responsibilities’ section in the shaded box, the last paragraph includes the statement in relation to compliance with relevant ethical requirements which is appropriate for audits of financial reports of listed entities as per paragraph 39(b) of ASA 700. Given this example relates to a Non-Corporations Act engagement, we believe this statement should be deleted as it is not relevant.
Appendix – Illustration 4	Within the ‘Other Information’ section of this illustration it currently refers to the “...Entity’s annual report...” – we wonder how appropriate and common this would be given that it is a Non-Corporations Act example. We suggest that this be updated to refer to other information that is more appropriate in these circumstances or the whole ‘Other Information’ section should be removed.
ASA 701 (Document 3 of 8)	
Aus 0.1(b)	Grammatical error noted as follows: “...or a complete set of financial report...” This wording should be updated to refer to a ‘...complete set of financial statements...’
5	Grammatical error noted as follows: “...to audits of <u>complete sets of</u> general purpose financial report...” This wording should be updated to refer to ‘...audits of general purpose financial reports...’
ASA 705 (Document 4 of 8)	
17(a)	Grammatical error noted as follows: “...(or <u>give</u> a true and fair view of)...” This wording should be updated to ‘...(or gives a true and fair view of)...’
17(b)	Grammatical error noted as follows: “...the accompanying financial report <u>have</u> been prepared...” This wording should be updated to ‘...the accompanying financial report has been prepared...’
18(b)	Grammatical error noted as follows: “...the accompanying financial report <u>have</u> been prepared...” This wording should be updated to ‘...the accompanying financial report has been prepared...’
A2	Grammatical error noted as follows: “...the financial report as a whole <u>are</u> free from...” This wording should be updated to ‘...the financial report as a whole is free from...’
Appendix – Illustration 2A	Typo to be fixed at the end of the sentence under the ‘Key Audit Matters’ section to remove the extra space before the full stop.
Appendix – Illustration 3A	Typo to be fixed in the first sentence under the ‘Qualified Opinion’ section, to add a space before “including its subsidiaries”. Typo to be fixed at the end of the first paragraph under the ‘Basis for Qualified Opinion’ section, to add a full stop at the end of the sentence.
ASA 570 (Document 6 of 8)	
4	Grammatical error noted as follows: “...in the preparation of financial report...” This wording should be updated to ‘...in the preparation of the financial report...’
A26	Grammatical error noted as follows: “...the financial report <u>include</u> disclosure of...”

	This wording should be updated to ‘...the financial report includes disclosure of...’
A27	Grammatical error noted as follows: “...unmodified opinion on <u>those</u> financial report...” This wording should be updated to ‘...unmodified opinion on that financial report...’
Appendix 1	Relating to the Going Concern diagram, we note the following points: <ul style="list-style-type: none"> • Within the 5th box on the right hand side, the wording should be updated to refer to “Does the auditor...” rather than the current wording that states “Does the audit...” • The ‘Y’ option in the bottom right hand corner leading to “Unmodified opinion” could create some confusion as it is unclear what the auditor should do if the answer is no.
Appendix 2	Typo noted in the lead in page referring to “[Aus] Illustration 4A as follows: “...containing <u>an</u> disclaimer of opinion...” which should be updated to “...containing a disclaimer of opinion...”
ASA 260 (Document 7 of 8)	
3	Typo noted as follows: “...an audit of <u>an</u> financial report...” which should be updated to “...an audit of a financial report...”
Appendix 2	Typo noted in the second bullet point in the ‘Related Matters’ section as follows: “...the financial report <u>are</u> affected by...” which should be updated to “...the financial report is affected by...”
Appendix 2	Typo noted in the third bullet point in the ‘Related Matters’ section as follows: “...the entity’s <u>bases</u> for...” which should be updated to “...the entity’s basis for...”
Amendments to Australian Auditing Standards (Document 8 of 8)	
Amendments to ASA 510 – Illustration 1 (page 12)	Typo noted in the Illustration 1 box relating to the word “Circumstances” that should not have a capital letter at the start.
Amendments to ASA 510 – Illustration 2A (page 15)	Typos noted in the Illustration 2A box relating to the word “Circumstances” that should not have a capital letter at the start and the first bullet point that should refer to “...a single listed Entity...” not “...an single listed Entity...”
Amendments to ASA 580 – point 44 (page 18)	We recommend that paragraph Aus A26.1 is retained in ASA 580 as it references to relevant sections of the <i>Corporations Act 2001</i> within the supporting footnotes.
Amendments to ASA 600 – point 48 (page 18)	We recommend that paragraph Aus A12.1 is retained in ASA 600 as it includes reference to the relevant and applicable section of the <i>Corporations Act 2001</i> .
Amendments to ASA 600 – Illustration 1 (page 20)	Within the first paragraph of the ‘Qualified Opinion’ section, references to the statement of changes in equity and statement of cash flows should both be prefixed with the word “consolidated”.
Amendments to ASA 600 – Illustration 1A (pages 21 & 22)	Within the circumstances box for this illustrative example, it states in one bullet point that the financial report is prepared by the directors of the Entity (who are those charged with governance) and it then states in a later bullet point that those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report – these facts seems to be in conflict with each other. We recommend that the later bullet point stating that those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report be deleted.
Amendments to ASA 600 – Illustration 1A (page 22)	Within the first paragraph of the ‘Qualified Opinion’ section, references to the statement of changes in equity and statement of cash flows should both be prefixed with the word “consolidated”.
Amendments to	Within the opinion paragraph of the ‘Qualified Opinion’ section and within the ‘Basis of Qualified

ASA 600 – Illustration 1A (page 22)	Opinion’ section, it refers to “...true and fair view of the Company’s...” and “...independent of the Company...” respectively – we believe that these should make reference to the “Group” rather than the Company.
Amendments to ASA 710 – Illustration 1A (pages 27 & 28)	Within the circumstances box for this illustrative example, it indicates in the bullet points that management has responsibility for the financial report and those responsible for the oversight for the financial report are different, however within the example auditor’s report the entity’s responsibility heading only refers to the director’s responsibilities for the financial report – this doesn’t seem to align with the presumed circumstances of the engagement.
Amendments to ASA 710 – Illustration 2 (page 29)	Typo noted in the Illustration 2 circumstances box in that it currently states “The auditor is not required, and has otherwise <u>has</u> not decided,...” which should be updated to: ‘...and has otherwise not decided,...’
Amendments to ASA 710 – Illustration 2A (page 31)	Typo noted in the Illustration 2A circumstances box in that it currently states “Audit of a financial report of <u>an</u> single listed entity...” which should be updated to: ‘Audit of a financial report of a single listed entity...’
Amendments to ASA 710 – Illustration 2A (pages 31 & 32)	Within the circumstances box for this illustrative example, it indicates in the bullet points that management has responsibility for the financial report and those responsible for the oversight for the financial report are different, however within the example auditor’s report the entity’s responsibility heading only refers to the director’s responsibilities for the financial report – this doesn’t seem to align with the presumed circumstances of the engagement.
Amendments to ASA 710 – Illustration 3 (page 34)	Typo noted in the Illustration 3 circumstances box in that it currently states “The auditor is not required, and has otherwise <u>has</u> not decided,...” which should be updated to: ‘...and has otherwise not decided,...’
Amendments to ASA 710 – Illustration 3 (page 34)	Typo noted in the opinion paragraph within the ‘Opinion’ section as it currently states “...(or <u>give</u> a true and fair view of)...” which should be updated to: ‘...(or gives a true and fair view of)...’
Amendments to ASA 710 – Illustration 4 (page 35)	We suggest that the word “circumstances” is reinstated within the opening sentences of the circumstances box for this illustrative example to be consistent with the wording of the other illustrative examples.
Amendments to ASA 710 – Illustration 4 (page 36)	Typo noted in the Illustration 4 circumstances box in that it currently states “The auditor is not required, and has otherwise <u>has</u> not decided,...” which should be updated to: ‘...and has otherwise not decided,...’
Amendments to ASA 710 – Illustration 4 (page 36)	Typo noted in the opinion paragraph within the ‘Qualified Opinion’ section as it currently states “...(or <u>give</u> a true and fair view of)...” which should be updated to: ‘...(or gives a true and fair view of)...’