



Attachment to Board Meeting Summary Paper

Subject: ASA Redrafting Project – ASA 260 *Communication with Those Charged with Governance*
(Revised and Redrafted)

Prepared by: AUASB Technical Group

Date: 17 February 2009

Issues

The AUASB is requested to consider and resolve the following issues:

Item #	Issues	Approve? Y/N
1	<p>The Board in its 1 December 2008 meeting requested a comparison of the requirements in paragraph 13 and Aus 13.1 of the Standard compared to the <i>Corporations Act 2001</i>.</p> <p>Proposed ASA 260 (Revised and Redrafted) <i>“Auditor Independence</i></p> <p>13. In the case of listed entities, the auditor shall communicate with those charged with governance: (Ref: Para. A25-A27)</p> <p>(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence and any regulatory requirements that apply to the audit engagement; and</p> <p>(b) (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial report for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and</p> <p>(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.</p> <p>Aus 13.1 When the audit is conducted for non-listed entities under the <i>Corporations Act 2001</i>, the auditor shall communicate directly with those charged with governance:</p> <p>(a) details of relationships that may reasonably have a bearing on auditor independence, as outlined in relevant ethical requirements relating to audit engagements; and</p> <p>(b) the related safeguards that have been applied to eliminate threats to independence or reduce them to an acceptable level.”</p>	

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	<p>Extant ASA 260 equivalent “Communicating Auditor Independence Requirements</p> <p>20. When the audit is conducted under Part 2M.3 of the <i>Corporations Act 2001</i>, the auditor shall communicate directly with those charged with governance:</p> <p>(a) a statement as to whether the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms are independent in accordance with relevant ethical requirements and any regulatory requirements that apply to the audit engagement; and</p> <p>(b) (i) details of relationships that may reasonably have a bearing on auditor independence, as outlined in relevant ethical requirements relating to audit engagements; and</p> <p>(ii) the related safeguards that have been applied to eliminate threats to independence or reduce them to an acceptable level.”</p> <p>Relevant Independence related sections under the <i>Corporations Act 2001</i></p> <ul style="list-style-type: none"> • S292 <i>Who has to prepare annual financial reports and director’s reports</i> – applies to all disclosing entities; public companies, large property companies and all registered schemes. • S298 <i>Annual directors report</i> [para 1(c)]– requires the report to include a copy of the auditor independence declaration under s307C • S300 <i>Annual Directors’ reports – specific information</i> [para’s 11B and 11C] apply to listed companies only, and requires director’s to disclose in the directors report: <ul style="list-style-type: none"> • details of the amounts paid or payable to the auditor for non-audit services provided during the year; • Statement that the directors are satisfied that the provision of non-audit services are compatible with general standards independence for auditors imposed by the audit • Statement that directors’ are satisfied that the provision of the non audit services did not comprise the auditor independent requirements. • S307C <i>Auditors’ independence declaration</i> – to be prepared by the auditor in respect of any audit of a financial report for a financial year [related to all disclosing entities; public companies, large property companies and all registered schemes], and given to the director’s. It confirms that the auditor, during the audit, has not contravened the requirements of the Act regarding Independence, or any applicable code of professional conduct. • S324CA <i>General requirement for auditor independence–auditors</i> - sets out the independence requirements of the Act [related to all disclosing entities; public companies, large property companies and all registered schemes]. <p>Also included is the requirements of Accounting Professional and Ethical Standards Board given the reference to “ethical requirements regarding independence” in para 13 (above).</p> <p>Relevant Independent related sections under APES 110 <i>Code of Conduct for Professional Accountants</i></p> <ul style="list-style-type: none"> • Section 290.30 - applies to listed entities, disclosing entities and registered schemes, and requires the auditor to communicate with director’s all relationships that may affect independence (consistent with meaning of first sentence at para 13 (b)(i) above). <p>Note shaded text in paragraph 13 (b)(i) represents a requirement not in the <i>Corporations Act 2001</i> – s300 only requires disclosure of listed companies non-audit service fees, not audit service fees. It represents a new requirement in the underlying (ISA) standard.</p> <p>In order to ensure consistency between ASA 260 (Revised and Redrafted) and the <i>Corporations Act 2001</i> and APES 110, the following changes are suggested to para’s 13 and Aus 13.1 (changes <u>underlined</u> for emphasis):</p>	

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	<p><i>“Auditor Independence</i></p> <p>13. In the case of listed entities, the auditor shall communicate with those charged with governance: (Ref: Para. A25-A27)</p> <p>(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence* and any regulatory requirements that apply to the audit engagement; and</p> <p>(b) (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial report for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and</p> <p>(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.</p> <p>Aus 13.1 When the audit is conducted for non-listed entities** under the <i>Corporations Act 2001</i>, the auditor shall communicate directly with those charged with governance:</p> <p>(a) <u>A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence and any regulatory requirements that apply to the audit engagement; and</u></p> <p><u>(b) (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be thought to bear on independence. details of relationships that may reasonably have a bearing on auditor independence,</u> as outlined in relevant ethical requirements relating to audit engagements; and</p> <p><u>(b) (ii) the related safeguards that have been applied to eliminate threats to independence or reduce them to an acceptable level.”</u></p> <p>* See APES 110 <i>Code of Ethics for Professional Accountants</i>, as issued from time to time by the <u>Accounting Professional and Ethical Standards Board</u>.</p> <p>** See, for example, Section 292 of <i>Corporations Act 2001</i> for the types of entities.</p> <p>Does the Board agree with the changes suggested?</p> <p>Recommendation: Adopt changes suggested above.</p>	
2	<p>The Board in its 1 December 2008 meeting requested guidance paragraph A27 associated with paragraph 13 (and Aus 13.1) be revised to clarify the communication requirements between listed and non-listed entities. There was no extant ASA guidance with equivalent meaning in ASA 260 (Revised and Redrafted). (changes <u>underlined</u>/crossed out for emphasis):</p> <p>Proposed ASA 260 (Revised and Redrafted) – A27</p> <p>“The communication requirements relating to auditor independence that apply in the case of listed entities <u>-under paragraph 13, and non-listed entities under paragraph Aus 13.1,</u> may also be relevant in the case of some other entities*, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of <u>such</u> entities whose audit may be outside the requirements of the Corporations Act 2001, but where</p>	

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	<p><u>the</u> communication of auditor independence may be appropriate, <u>or required</u>, include public sector entities, credit institutions, insurance companies, and superannuation funds. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor’s firm and network firms have little involvement with the entity beyond a financial report audit.”</p> <p><u>* for example, entities which do not have reporting requirements under the Corporations Act 2001.</u></p> <p>Does the Board agree with the changes suggested?</p> <p>Recommendation: Adopt changes suggested above.</p>	

Information

The following matters are brought to the Board’s attention for information purposes only:

Item #	Information only Matters	Para. #
1	Application paragraph Aus 0.1 changes made to reflect ASA 200 (Revised and Redrafted) changes. Refer Agenda Item: 13(a) for further information.	Aus 0.1
2	Changes made to paragraph 13 and Aus 13.1 noted in the Issues section (Item #1) above. Consequential change to Conformity paragraph as a result of Aus 13.1 wording changes.	13/Aus 13.1/Conformity paragraph
3	Paragraph Aus A4.1 changed from “ Paragraph 9.4AAA.....” to “ Part 9.4AAA.....” to reflect correct reference in the <i>Corporations Act 2001</i> .	Aus A4.1
4	Changes made to paragraph A27 (guidance related to paragraph 13) as noted in Issues section (Item #2 above).	A27