



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7(b).1**
Meeting Date: 4 June 2012
Subject: AUASB Due Process
Date Prepared: 25 May 2012

A. Consideration of alternative exposure processes

The Board is requested to consider the current AUASB exposure processes to determine if alternatives can deliver improvements in efficiency and effectiveness.

Agenda Item 7(b).2 provides details of the current AUASB processes. The Board is requested to specifically consider the AUASB exposure process in relation to standards issued by the IAASB and which will be adapted by the AUASB to become AUASB standards.

New Zealand

An alternative exposure process is that adopted by the New Zealand Auditing and Assurance Standards Board (NZAuASB). Below is a brief outline of the main elements of the NZ exposure process:

- (a) The NZAuASB monitors the progress of the IAASB's development of the standard. Throughout the development of the standard, the NZAuASB continually assesses the appropriateness of the standard for use in NZ.
- (b) When the IAASB issues the exposure draft, the NZAuASB determines the need, if any, to inform constituents of any matters relating to the proposed standard, particularly if the Board foresees necessary amendments to the standard for use in the NZ environment - such as legislative issues.
- (c) The IAASB exposure draft is published by the NZAuASB and promoted as a proposed NZ standard. In this way a NZ exposure runs concurrently with the IAASB exposure.
- (d) Responses from constituents are accumulated and the NZAuASB submits a formal response to the IAASB.
- (e) When the IAASB approves and issues standard, the NZAuASB considers whether or not the finalised standard contains substantive differences from the exposure draft that was issued to the NZ constituents.

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- (f) Where substantive differences exist, the NZAuASB re-exposes the proposed standard and considers submissions before finalising issuance of the standard.
- (g) Where no substantive differences exist, the NZAuASB does not re-expose the standard but proceeds with finalisation and issuance of the standard.

Benefit

- The NZAuASB is able to process its standard concurrently with the IAASB and where no substantive differences exist, the NZAuASB is able to issue a standard close to the time the IAASB issue its standard.

B. Comparison Table

The following table outlines the differences between the AUASB and the NZAuASB exposure processes when using an IAASB standard.

		AUASB	NZAuASB
1	Monitoring IAASB's development of a standard	√	√
2	Assess appropriateness of the standard in the local environment	√	√
3	When IAASB issues an ED, widely communicate foreseen changes to constituents	-	√
4	IAASB ED promoted as a proposed standard of the local Board	-	√
5	Obtain input from constituents on the IAASB ED	√	√
6	Formal submission to the IAASB	√	√
7	When IAASB issues the finalised standard, determine if substantive differences from the ED	-	√
8	Re-expose an amended ED based on the finalised IAASB standard where substantive differences from the initial ED	-	√
9	Issue a local exposure draft based on the finalised IAASB standard	√	-
10	Obtain and assess constituents' submissions to ED	√	√
11	Finalise, approve and issue standard	√	√

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C. Recommendations

1. To enhance awareness of the issuance of an IAASB exposure draft, and to improve input from a wider range of stakeholders, the AUASB should consider improved methods and quality of communications with its constituents.
2. The current AUASB exposure processes for standards issued by the IAASB that will be adapted as AUASB standards should be retained for the reasons:
 - (a) In responding to an IAASB exposure draft, a number of network firms (operating in Australia) are required to respond to their global headquarters so that the firm can make a single global submission to the IAASB.

In these cases, the AUASB is unlikely to receive a formal (written) submission on an IAASB exposure draft from the Australian firm because it may differ from the firm's global response.

As submissions are published by the IAASB, global submissions from competitor firms tend to be submitted at the end of the exposure period making it difficult to gauge global issues and support for the proposed standard.

- (b) The AUASB obtains input from its constituents about an IAASB exposure draft through the following processes:
 - (i) Roundtable discussion groups;
 - (ii) Direct contact with selected constituents; and
 - (iii) An open appeal to all constituents.

Constituents' views obtained in these ways provide sufficient input for the AUASB to develop formal submissions to the IAASB on its exposure drafts.

- (c) In order to achieve the perceived benefits of a concurrent exposure, the AUASB will most likely have to meet at very short notice to approve exposure of the IAASB exposure draft as an AUASB proposal.

To meet tight approval times, the AUASB will need to have previously considered:

- (i) The substantive issues included in the IAASB exposure draft.
- (ii) The appropriateness of the proposed standard for use in Australia.
- (iii) Any anticipated (Australian) additions or other changes to the IAASB document, such as the inclusion of corporations' law requirements.

Any such anticipated additions or other changes would presumably be communicated to constituents by way of an "accompanying note" indicating the nature of the expected change(s). This approach would be preferable to a marked up change to the IAASB exposure draft itself which would likely take longer to process and approve, thereby detracting from any benefits of concurrent exposure.

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- (d) When it is necessary to re-expose a previously exposed IAASB standard (because the final proposed Australian standard differs substantively from the IAASB exposure draft), there may be a reputational risk. Such risk arises because of the implication that the AUASB had *not* previously considered the substantive matters that make up the difference between the IAASB exposure draft and the final proposed Australian standard. [See comments on an “accompanying note” referred to in point (3) above.]

Further, a re-issuance of an exposure draft will entail some level of additional cost to the AUASB.

- (e) In the past, constituents have demonstrated sensitivity to the precise wording of standards made under the Act due to their legal enforceability. Accordingly, the AUASB will have to clearly define “substantive changes” that would necessitate a second exposure to avoid any misunderstanding and/or adverse criticism by constituents when the final AUASB standard differs from the exposure draft but has *not* been re-exposed.
- (f) IAASB standards have quite long lead times before they become effective, with ISAs effective for financial statement periods commencing on or after the 15th December. The next financial year for the majority of Australian entities will *commence* on 1 July of the following year. Further, the AUASB does not provide for “early adoption” of standards due to their legal status – i.e. there can only be one suite of auditing standards legally enforceable under the Act at any one time.

Accordingly, there is no apparent time constraint requiring issuance of an AUASB standard at, or close to, the time the IAASB issues its standards.

- (g) Under the current legislative regime, the Office of Best Practice Regulation (OBPR) must approve the AUASB’s assessment of the impact of its standards on the community (regulatory impact assessment). Where the impact is assessed as significant, a *Regulatory Impact Statement* must be prepared and approved by OBPR prior to the AUASB approving the standard.

As can be seen from the questions contained in the extract in section D below, it is likely that exposure of the IAASB ED as an AUASB proposed standard may be problematic for constituents - particularly in answering the very specific questions which were originally designed to enable the AUASB to complete its submissions to the OBPR.

D. Information only

The extract on the following page is provided as information only for the AUASB in its deliberations on the exposure draft processes. [See paragraph 2 (g) above]

The extract is from the March 2009 Exposure Draft of the clarity version of ASA 705 (modifications to the opinion).

In addition, the key exposure questions are reported in the *Explanatory Statement* which is a summary document that must be registered with the Federal Register of Legislative Instruments (FRLI) and must accompany the standard itself when placed before Parliament.

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Extract only

Request for Comment

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 701, *Modifications to the Auditor's Report* by no later than 6 April 2009. The AUASB is seeking comments on the main changes from the existing ASA 701. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. 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?
4. 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?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

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