

2 February 2006

The Chairman
Auditing and Assurance Standards Board
Level 4
530 Collins Street
MELBOURNE VIC 3000

Dear Ms Kelsall,

Exposure Drafts ED 27/05 to 36/05

We have attached our comments in relation to each of the above captioned EDs as Appendices A to J. Our main areas for comment in relation to the EDs are;

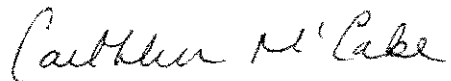
- A recent legal case has resulted in audit clients becoming increasingly cautious in providing full access to legal documents or requesting legal representation letters from their legal advisers for fear of losing an ability to claim legal professional privilege over these documents at a future date. We recommend that the Auditing and Assurance Standards Board (“the Board”) incorporate this recent development into ED 27/05 *Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)* and strongly urge the Board to work with other National bodies to develop a solution that balances an entity’s need for legal professional privilege and the auditor’s need to obtain audit evidence.
- In our response to ED 9/05 *Proposed Auditing Standard: Terms of Audit Engagements (Re-issuance of AUS 204)* we opposed the inclusion of mandatory requirements relating to an auditor’s independence in audit engagement letters. In ED 34/05 *Proposed Auditing Standard: Communication of Audit Matters with those Charged with Governance (Re-issuance of AUS 710)* and ED 36/05 *Proposed Auditing Standard: Review of an Interim financial Report Performed by the Independent Auditor of the Entity* the Board has included similar mandatory requirements. The Corporations Act 2001 (“the Act”) and Professional Statement F.1 – Professional Independence (“F1”) provide a comprehensive framework under which an auditor’s obligations and duties as to independence are set out. We strongly oppose the Board creating additional reporting and administrative compliance requirements for auditors in relation to independence when there is no apparent public interest outcome.
- At paragraph 22 of ED 32/05 *Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)*, the Board has included a mandatory requirement for auditors to express a modified opinion if the prior period financial report was unaudited. Whilst they are uncommon, there are situations where an auditor can obtain sufficient audit evidence upon which to express an opinion on the comparatives in a first time audit situation. We urge the Board to amend this paragraph to acknowledge there are instances where an unmodified opinion can be issued.

- The phrase “pursuant to paragraph X of this Standard the auditor is required to...” is frequently used in the guidance paragraphs. We believe the use of this phrase extends the requirements of the black letter paragraph. We recommend that the Board amend the effected paragraphs by using the “ordinarily framework”.

We would be pleased to discuss our comments with members of the Board or its staff. If you wish to do so, please do not hesitate to contact me on 02 9322 7288.

Yours sincerely,

DELOITTE TOUCHE TOHMATSU



Caithlin Mc Cabe

Partner

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>Paragraph 11</p> <p>When legal matters have been identified or when the auditor believes they may exist, the auditor shall endeavour to obtain written representations from all lawyers with whom management has consulted on material legal matters.</p>		<p>Paragraph 11 of the ED says the auditor should endeavour to obtain a written representation from all lawyers with whom management has consulted on material legal matters. As a result of a recent legal decision clients and their legal advisers are becoming increasingly cautious as to the way they convey and provide access to information about current legal matters.</p> <p>Until there is a change to legislation or laws relating to legal professional privilege and communications with auditors this reluctance will continue and auditors are likely to be faced with this situation (i.e. the client refusing/hesitant to give the auditor permission to communicate with their legal advisers) more frequently.</p> <p>We would also encourage the Board to work with other national bodies such as the Law Council of Australia, the ICAA, CPA Australia, the Institute of Company Directors and Parliament to develop a change to the laws surrounding legal professional privilege so that an entity's officers and its legal representatives can have full and frank exchanges with the entity's auditor about legal matters without the worry of whether they can later claim legal professional privilege on these exchanges.</p>

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Appendix A – Comments on ED 27/05 – Proposed Auditing Standard: Inquiry Regarding Litigation and Claims (Re-issuance of AUS 508)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
Paragraph 31 The auditor shall inquire of management about new legal matters referred to a lawyer subsequent to the date of the request for a representation letter to the entity's lawyers and prior to signing the audit report.	There is no comparable paragraph within ISA 501. There are comparable requirements at paragraphs 8 and 10(d) of ED 22/05 / <i>Proposed Auditing Standard: Subsequent Events (Re-issuance of AUS 706)</i>	To avoid duplication of requirement's and facilitate closer harmonisation with the ISA framework we recommend the Board either relegate or remove this paragraph and its related guidance in paragraph 32.

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Appendix B – Comments on ED 28/05 – Proposed Auditing Standard: Audit Sampling and Other Means of Testing (Re-issuance of AUS 514)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
Paragraph 58 The auditor shall obtain sufficient appropriate audit evidence by performing further audit procedures to be satisfied that errors which are suspected to be anomalous errors are not representative of the population.	This paragraph is currently included in AUS 514 as guidance. The ED proposes to elevate this item from guidance to a mandatory requirement. ISA 530 contains a comparable guidance paragraph.	To enhance harmonisation with ISA 530 we recommend that the Board relegate this paragraph back to a guidance paragraph.

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Appendix C – Comments on ED 29/05 – Proposed Auditing Standard: Audit of Accounting Estimates (Re-issuance of AUS 516)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 11</i></p> <p>The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence as to whether the entity’s accounting estimates are reasonable in the circumstances and, when required, appropriately disclosed.</p> <p><i>Paragraph 16</i></p> <p>Pursuant to paragraph 11 of this Auditing Standard, the auditor is required to evaluate whether the data on which the estimate is based is accurate, complete and relevant. When information produced by the entity is used, it will need to be consistent with the data processed through the information system relevant to financial reporting. For example, in substantiating a warranty provision, the auditor obtains audit evidence that the data relating to products still within the warranty period at period end agree with the sales information within the information system relevant to financial reporting. AUS 502 Audit Evidence provides additional explanatory guidance on the requirement to obtain audit evidence about the accuracy and completeness of information produced by the entity when it is used in performing audit procedures.</p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 16 has the effect of extending the mandatory requirement in paragraph 11.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”, for example – “the auditor will ordinarily is required to evaluate whether the data on which the estimate is based is accurate, complete and relevant.”</p>

Paragraph 32

The auditor shall endeavour to obtain written representations from management regarding the reasonableness of significant assumptions used by them in making accounting estimates.

This mandatory requirement is already included, albeit not as specifically as it is in this paragraph, at paragraph 9 of ED 19/05 / AUS 520 *Management Representations* and is not included in ISA 540.

Paragraph 9 of ED 19/05 says,
“The auditor shall endeavour to obtain written representations from management on matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.”

We recommend that the Board remove this paragraph as it is a duplication of a requirement of another ED or relegate it to guidance.

Furthermore it is not a specific requirement of ISA 540 and its inclusion in this ED will result in the Australian equivalent standard being out of line with its ISA equivalent.

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Appendix D – Comments on ED 30/05 – Proposed Auditing Standard: Using the Work of Another Auditor (Re-issuance of AUS 602)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 14</i></p> <p>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.</p> <p><i>Paragraph 15</i></p> <p>Pursuant to paragraph 14 of this Auditing Standard, the principal auditor is required to advise the other auditor of:</p> <ul style="list-style-type: none">(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 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.	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 15 has the effect of extending the mandatory requirement in paragraph 14.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”, for example – “Pursuant to paragraph 14 of this Auditing Standard, the principal auditor is required to will ordinarily advise the other auditor of:”</p>

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 20</i></p> <p>When the external auditor intends to use specific work of internal auditing, the external auditor shall evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor’s purposes.</p> <p><i>Paragraph 21</i></p> <p>Pursuant to paragraph 20 of this Auditing Standard, the auditor is required to evaluate the specific work of internal auditing which involves consideration of the adequacy of the scope of work and related programs and whether the assessment of the internal auditing remains appropriate. This evaluation may include consideration of whether:</p> <ul style="list-style-type: none"> (a) the work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented; (b) sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions; (c) conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and (d) any exceptions or unusual matters disclosed by internal auditing are properly resolved. 	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 21 has the effect of extending the mandatory requirement in paragraph 20.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”, for example – “Pursuant to paragraph 20 of this Auditing Standard, the auditor is required to evaluate the specific work of internal auditing which <u>will ordinarily</u> involves consideration of the adequacy of the scope of work and related programs and whether the assessment of the internal auditing remains appropriate...”</p>

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Appendix F – Comments on ED 32/05 – Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>Paragraph 22</p> <p>When the prior period financial report was not audited, the incoming auditor shall qualify the auditor's report on the basis that the comparatives are unaudited and that no opinion on them is expressed.</p>	<p>This mandatory requirement is not included in ISA 710.</p> <p>This mandatory requirement will result in a modified audit opinion even in situations (admittedly they may not be frequent) when an auditor is able to obtain sufficient appropriate audit evidence on the comparatives and but for this requirement would have been able to express an unmodified opinion.</p>	<p>We recommend that this paragraph be relegated to guidance and amended as follows,</p> <p>When the prior period financial report was not audited, it is unlikely that the incoming auditor is able to <u>obtain sufficient and appropriate audit evidence upon which to conclude that the comparatives are not materially misstated, and therefore, the incoming auditor shall ordinarily qualify the auditor's report on the basis that the comparatives are unaudited and that no opinion on them is expressed.</u></p>

Appendix G – Comments on ED 33/05 – Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 12</i> An auditor shall make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures at the assertion level, selection strategies and other procedures.</p> <p><i>Paragraph 19</i> The auditor shall decide, using professional judgement whether to document misstatements below the materiality level.</p> <p><i>Paragraph 36</i> When the auditor concludes that uncorrected misstatements are immaterial individually and in aggregate to the financial report, the auditor shall endeavour to obtain representations from management to acknowledge: (a) uncorrected misstatements have been brought to their attention by the auditor; and (b) they have considered the effect of any uncorrected misstatements, aggregated during and pertaining to the latest period, on the financial report and consider the misstatements are immaterial individually and in aggregate to the financial report taken as a whole.</p>	<p>These paragraphs are not included in ISA 320 and are an elevation from the existing AUS.</p>	<p>To enhance international harmonisation we recommend that the Board relegate these paragraphs to guidance.</p>

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Appendix G – Comments on ED 33/05 – Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issuance of AUS 306)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>										
<p data-bbox="280 1812 304 2056"><i>Refer to Appendix K</i></p>	<p data-bbox="280 842 443 1435">The use of the phrase “Pursuant to paragraph X of this Auditing Standard ... the auditor is required to...” in a number of paragraphs of this ED has the effect of extending the mandatory requirement in other paragraphs.</p> <p data-bbox="485 1021 512 1435">The table below provides examples</p> <table data-bbox="517 887 676 1435"> <tr> <td data-bbox="517 1178 544 1435">Mandatory Paragraph</td> <td data-bbox="517 887 544 1122">Guidance Paragraph</td> </tr> <tr> <td data-bbox="549 1279 576 1435">Paragraph 12</td> <td data-bbox="549 965 576 1122">Paragraph 14</td> </tr> <tr> <td data-bbox="580 1279 608 1435">Paragraph 24</td> <td data-bbox="580 965 608 1122">Paragraph 23</td> </tr> <tr> <td data-bbox="612 1279 639 1435">Paragraph 28</td> <td data-bbox="612 965 639 1122">Paragraph 29</td> </tr> <tr> <td data-bbox="644 1279 671 1435">Paragraph 28</td> <td data-bbox="644 965 671 1122">Paragraph 31</td> </tr> </table>	Mandatory Paragraph	Guidance Paragraph	Paragraph 12	Paragraph 14	Paragraph 24	Paragraph 23	Paragraph 28	Paragraph 29	Paragraph 28	Paragraph 31	<p data-bbox="280 315 379 815">We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”.</p>
Mandatory Paragraph	Guidance Paragraph											
Paragraph 12	Paragraph 14											
Paragraph 24	Paragraph 23											
Paragraph 28	Paragraph 29											
Paragraph 28	Paragraph 31											

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Appendix H – Comments on ED 34/05 – Proposed Auditing Standard: Communication of Audit Matters with those charged with Governance (Re-issuance of AUS 710)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 16</i></p> <p>Audit matters of governance interest ordinarily such matters include the following:²</p> <p>Footnote 2 to paragraph 16</p> <p>The list of matters below is not intended to be all-inclusive or exhaustive. In addition, other Auditing Standards identify specific situations where the auditor is required to communicate certain matters with those charged with governance.</p>	<p>It has not been commonplace to include a footnote such as this prior to a list of items in the ED's. There are many lists in the ED's. The Board's decision to include it here could be interpreted as all other lists included in AUS's are exhaustive or inclusive which is not, we believe, the Board's intent.</p>	<p>We acknowledge that this footnote is included in ISA 260, however, as the Australian standards will have force of law we recommend digressing from the ISA in this instance so as to improve the clarity of application of all the AUS's and in particular the Preamble Standard. We recommend that the Board remove this footnote and make reference to lists generally in the Preamble standard.</p>
<p><i>Paragraph 20</i></p> <p>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 that 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 additional external requirements that apply to the 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 communication shall include advice of total fees charged during the period covered by</p>	<p>The Corporations Act (2001) ('the Act') and Professional Statement F.1 – Professional Independence ("FI") already establish a comprehensive framework in relation to auditor independence and reporting requirements ("the current independence framework"). Some contraventions under the Act also have defences within that Act.</p> <p>The mandatory requirement included in paragraphs 20(a) of the ED is consistent with existing reporting requirements included in section 307C of the Act, therefore it is unclear what value this requirement adds towards protecting the public interest.</p> <p>The first requirement of paragraph 20(b)(i) is already contained in paragraphs 1.32 and 1.33 of</p>	<p>We recommend these paragraphs be deleted for the following reasons:</p> <p>We are supportive of the auditor communicating with its audit client on independence matters as required by the current independence framework but we are not supportive of the imposition of additional administrative and reporting requirements being placed on the auditor, above and beyond the existing legal and professional requirements, with no clear public interest resulting.</p> <p>Auditor independence rules are already fully developed, regulated, monitored and reported under an existing legal and professional framework. We are not supportive of a third, apparently inconsistent, layer being added to</p>

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Appendix H – Comments on ED 34/05 – Proposed Auditing Standard: Communication of Audit Matters with those charged with Governance (Re-issuance of AUS 710)

Paragraph/s	Comments	Recommendation/s
<p>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 threats to independence or reduce them to an acceptable level.</p> <p><i>Paragraph 21</i></p> <p>The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address the relevant matters set out in <i>Corporations Act 2001</i> and the applicable code of professional conduct of a professional accounting body, which provide guidance, including application to specific situations, on:</p> <p>(a) threats to independence, categorised as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and</p> <p>(b) safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.</p>	<p>F1, however only in respect of listed entities, disclosing entities and registered schemes, where there is an obvious public interest and wide range of potential stakeholders. The requirement creates an additional obligation above and beyond the current independence framework in respect of other private companies where no such public interest exists.</p> <p>The second requirement of paragraph 20(b)(i) relates to the mandatory disclosure by the auditor of services and fees provided to the audit client. The disclosure of fees is a requirement placed on companies not auditors, by Australian Accounting Standard AASB 101 <i>Presentation of Financial Statements</i> paragraphs Aus126.1 and Aus 126.2. In addition, pursuant to sections 300(11B) and 300(11C) of the Act, Directors (of listed companies only, not all entities preparing a financial report under Part 2M.3 of the Act) are also required to make such non-audit services and fees disclosures in the Directors' Report. There is no legal or professional requirement under the existing independence framework requiring auditors to make any such disclosures.</p> <p>Furthermore, this requirement in the ED is contrary to section 300(11D) which states that the disclosures must be made by the Directors in accordance with (a) advice provided by the listed</p>	<p>existing requirements.</p> <p>We are also supportive of a framework that places equal responsibility on the company and the auditor for maintaining independence. The current independence framework recognises that audit committees and boards have important corporate governance roles to play and place responsibilities on such to play such a role in assisting the auditor to maintain independence. The proposed additional requirements placed on auditors in this ED erode this responsibility.</p> <p>The inclusion of the additional obligations may give rise to legal causes of action that do not exist under the current independence framework.</p>

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Appendix H – Comments on ED 34/05 – Proposed Auditing Standard: Communication of Audit Matters with those charged with Governance (Re-issuance of AUS 710)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 22</i> The auditor ordinarily considers whether the communications set out in paragraph 20 of this Auditing Standard are also relevant in the case of 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 such entities might include public sector entities, credit institutions, insurance companies, and superannuation funds. 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 to be the case 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><i>Paragraph 23</i> If a contravention of the <i>Corporations Act 2001</i> or relevant ethical requirements as they relate to auditor independence has occurred, the auditor shall, at the earliest practical date, directly communicate with those charged with governance regarding details of the contravention and whether remedial action, if any, has been taken or is proposed.</p>	<p>company's audit committee if the company has an audit committee; or (b) a resolution of the directors of the listed company. The requirement is also contrary to the spirit and intention of section 300(11B) which requires the Directors to take responsibility for satisfying themselves that services provided by the auditor do not impair independence. There is no requirement in the Act that the auditor provide such information, though we are supportive of the auditor assisting the Directors of listed companies with their assessments.</p> <p>The final requirement of paragraph 20 is also additional to the current independence framework. As recognised by paragraph 21, matters to be communicated to those charged with governance will vary with each set of facts and circumstances and should be left to the judgement of the auditor. Such a general mandatory requirement may not be applicable to the circumstances. If this requirement is interpreted to suggest that such a disclosure should be made in respect of each and every non-audit service provided to the audit client, even where a significant threat was not created by the provision of the service, then it is imposing a mandatory requirement that could potentially not be complied with.</p> <p>Paragraph 22 discusses "other entities" for which</p>	

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Appendix H – Comments on ED 34/05 – Proposed Auditing Standard: Communication of Audit Matters with those charged with Governance (Re-issuance of AUS 710)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 24</i> The applicable code of professional conduct of a professional accounting body includes guidance on safeguards that could be applied if there has been an inadvertent violation relating to a financial interest in an assurance client.</p>	<p>communications may be considered, however includes types of entities for which an audit may be conducted under the Act. This guidance appears potentially contradictory to the mandatory requirements in paragraph 20.</p> <p>Paragraph 23 creates additional reporting requirements not contained in the current independence framework with no apparent value to protecting the public interest. Under section 307C of the Act, the auditor is already required to report such contraventions to the client, however sensibly does not impose a time requirement.</p> <p>Paragraph 24 suggests that safeguards can be applied to inadvertent financial interests which are not in fact applicable to contraventions of the Act.</p>	
<p><i>Paragraph 15</i> The auditor shall consider audit matters of governance interest that arise from the audit of the financial report and communicate them with those charged with governance.</p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 35 has the effect of extending the mandatory requirement in paragraph 15.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”.</p>
<p><i>Paragraph 35</i> Pursuant to paragraph 15 of this Auditing Standard, the auditor is required to consider whether audit matters of governance interest</p>		

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Appendix H – Comments on ED 34/05 – Proposed Auditing Standard: Communication of Audit Matters with those charged with Governance (Re-issuance of AUS 710)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>previously communicated continue to be a matter of governance interest and whether to communicate the matter again with those charged with governance.</p>		
<p><i>Paragraph 38</i> In the public sector, obligations imposed on the auditor to communicate on governance related matters that are broader than the types of matters discussed in this Auditing Standard, such as:</p> <ul style="list-style-type: none">(a) compliance with legislative or regulatory requirements and related authorities;(b) adequacy of internal control; and(c) economy, efficiency and effectiveness of programs, projects and activities. In addition, the auditor's written communications may be placed on public record and distributed to a wider audience than solely those persons charged with governance of the entity being audited.	<p>This paragraph is relevant for Public Sector entities but the ED's have been drafted as sector neutral.</p>	<p>We recommend the Board delete this paragraph.</p>



Appendix I – Comments on ED 35/05 – Proposed Auditing Standard: The Auditor’s Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 7</i> Before undertaking a special purpose audit engagement, the auditor shall ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued.</p> <p><i>Paragraph 8</i> In planning the audit work, pursuant to paragraph 7 of this Auditing Standard, the auditor is required to obtain a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it. To avoid the possibility of the auditor’s report being used for purposes for which it was not intended, the auditor ordinarily indicates in the report the purpose for which the report is prepared and any restrictions on its distribution and use.</p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 8 has the effect of extending the mandatory requirement in paragraph 7.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”.</p> <p>For example – “In planning the audit work, pursuant to paragraph 7 of this Auditing Standard, the auditor is required to <u>will ordinarily</u> obtain a clear understanding of the purpose for which the information being reported on is to be used, and who is likely to use it.”</p>
<p><i>Paragraph 23</i> The auditor shall consider whether the financial report is intended, or purports, to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.</p>	<p>This paragraph places an increased obligation on an auditor to actively consider the needs of third parties, who have not engaged the auditor, and who may be many in number.</p> <p>ISA 800 has no similar requirement.</p> <p>Example opinion 1 at appendix A includes statements that (i) it is the directors’ responsibility to determine that the accounting policies used are</p>	<p>We recommend that the Board remove this paragraph.</p>

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Appendix 1 – Comments on ED 35/05 – Proposed Auditing Standard: The Auditor’s Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
	<p>appropriate for the needs of the members, and (ii) the auditor does not express an opinion as to whether the accounting policies used are appropriate to meet the needs of the members. This would appear to be in conflict with paragraph 23.</p>	
<p><i>Paragraph 37</i> When an adverse opinion or disclaimer of opinion on the entire financial report has been expressed, the auditor shall report on components of the financial report only if those components are not so extensive as to constitute a major portion of the financial report. To do otherwise may overshadow the report on the entire financial report.</p>	<p>The last sentence in this paragraph is guidance in ISA 800 and the current version of AUS 802 (paragraph 26).</p> <p>This sentence is not an actionable statement.</p>	<p>To continue with the harmonisation with ISA 800 we recommend this sentence be relegated to guidance. Alternatively if it is retained as a mandatory requirement it should be rephrased to an actionable requirement.</p>
<p><i>Example 6</i> In our opinion, the information reported in the summarised financial report is consistent with the financial report from which it was derived. For a better understanding of the scope of our audit, this auditor’s report should be read in conjunction with our audit report on the financial report.</p>	<p>This opinion paragraph does not contain the phrase “in all material respects” and accordingly is not in line with the other examples in this ED and with its equivalent in ISA 800.</p>	<p>To enhance consistency in audit reporting and harmonisation with ISA 800 we recommend that this paragraph be amended as follows, “In our opinion, the information reported in the summarised financial report is consistent, <u>in all material respects</u>, with the financial report from which it was derived. For a better understanding of the scope of our audit, this auditor’s report should be read in conjunction with our audit report on the financial report.”</p>
<p><i>Appendix 2 Example Opinion</i> The example opinion refers to “companies,</p>	<p>It is highly unlikely that a disclosing entity</p>	<p>We recommend the Board remove the reference to</p>

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Appendix I – Comments on ED 35/05 – Proposed Auditing Standard: The Auditor’s Report on Special Purpose Audit Engagements (Re-issuance of AUS 802)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
registered schemes and disclosing entities”.	preparing a financial report under the Corporations Act 2001 would not be a reporting entity. Therefore, it is unlikely such an entity would be able to prepare a special purpose financial report.	disclosing entities in this example.

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Appendix J – Comments on ED 36/05 – Proposed Auditing Standard: ASRE 2410 - Review of an Interim Financial Report Performed by an Independent Auditor of the Entity

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 7</i></p> <p>Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with a relevant mandatory requirement in this Standard, the auditor shall:</p> <p>(a) if possible, perform appropriate alternative procedures; and</p> <p>(b) document in the working papers:</p> <ul style="list-style-type: none"> (i) the circumstances surrounding the inability to comply; (ii) the reasons for the inability to comply; and (iii) justification of how alternative procedures achieve the objectives of the mandatory requirement. When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor’s review report. 	<p>This black letter paragraph is not included in the equivalent ISA and is currently guidance within ED7/05 Proposed auditing Standard: Preamble to AUASB Standards.</p>	<p>When an auditor cannot complete a relevant black letter requirement it would be common practice to document the alternative procedures completed to achieve the same objective or to modify the auditor’s report. In order to maintain international harmonisation between this standard and ISRE 2410 we recommend the Board delete this paragraph or at least only include it as guidance. This will also result in this ED being consistent with ED 7/05 paragraph 39.</p> <p>If the paragraph is retained we believe that the Board should provide guidance as to what would amount to “rare and exceptional circumstances”.</p>
<p><i>Paragraph 46</i></p> <p>When comparative information is included for the first time in an interim financial report, an auditor shall perform the level of work necessary to provide the same level of assurance on the comparative information as is being provided on the current period interim financial report.</p>	<p>This paragraph is inconsistent with paragraph 22 of ED 32/05 (copied above) which requires an auditor to qualify on comparatives in the first year an entity is audited.</p>	<p>We recommend the Board amend this ED to make it consistent with our proposed amendments to ED 32/05.</p>

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 57</i></p> <p>If those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor’s work and the auditor shall express a qualified conclusion or a disclaimer of conclusion.</p> <p><i>Paragraph 59</i></p> <p>If the auditor identifies a material inconsistency, pursuant to paragraph 58 of this Standard, the auditor is required to consider whether the interim financial report or the other information needs to be amended. <i>If an amendment is necessary in the interim financial report and those charged with governance refuse to make the amendment, pursuant to paragraph 57 of this Standard, the auditor is required to consider the implications for the review report.</i> If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may for example consider including in the review report an additional paragraph (emphasis of matter) describing the material inconsistency or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the interim financial report, and</p>	<p>Paragraph 57 relates the auditor’s reporting considerations when those charged with governance refuse to provide a written representation.</p> <p>The section of paragraph 59 which we have quoted in italics refers to what the auditor would ordinarily do when those charged with governance refuse to make the necessary changes to a financial report.</p> <p>We do not believe that the linkage of paragraph 59 to 57 is appropriate as they are relating to different matters.</p>	<p>We recommend that the Board remove this linkage between the two paragraphs.</p>

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial report such that they are confusing and potentially misleading.</p>		
<p><i>Paragraph 71</i> In some cases, law or regulation governing the review of interim financial report may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 70(i) or (j). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this Standard for coming to the conclusion remain the same. Illustrative review reports are set out in Appendices 3 and 4 to this Standard.</p>	<p>This should cross reference to 70 (j) and (k).</p>	<p>Typing error to be corrected.</p>
<p><i>Paragraph 72</i> The term 'other circumstances' referred to in paragraph 70(j) refers to circumstances where the financial reporting framework is not designed to achieve fair presentation. For example, a financial report prepared on a cash basis. An illustrative review report is set out in Appendix 5 to this Standard.</p>	<p>This should cross reference to 70 (k) and not (j).</p>	<p>Typing error to be corrected</p>
<p><i>Paragraph 84</i> Pursuant to paragraph 83 of this Standard, the auditor is required to consider the legal and regulatory responsibilities, including whether there</p>	<p>The cross reference to paragraph 69 does not appear to be correct.</p>	<p>Amend cross reference to the correct paragraph.</p>

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>is a legal requirement for the auditor to issue a report. If there is such a requirement, pursuant to paragraph 83 of this Standard, the auditor is required to disclaim a conclusion, and provide in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, pursuant to paragraph 69 of this Standard, the auditor is required to communicate such a matter in the report.</p>		
<p><i>Example Engagement Letter</i></p> <p>We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the <i>Corporations Act 2001</i> in relation to the review of the half-year financial report. We also confirm that we have the appropriate processes in place to allow us to meet the independence requirements of the <i>Corporations Act 2001</i>. In conducting our review of the half-year financial report, should we become aware that we have contravened the independence requirements of the <i>Corporations Act 2001</i>, we shall notify you immediately. As part of our review process, we shall provide you with a written independence declaration as required by</p>	<p>The Corporations Act (2001) ('the Act') and Professional Standards establish a comprehensive framework in relation to auditor independence upon which an auditor is already liable for breaches. Some breaches under the Act also have defences within that Act. The requirement to include statements in relation to compliance with these independence requirements in an auditor's engagement letter would expose the auditor to actions for breach of contract in addition to the penalties already imposed by the Act and Professional Standards. In addition, the proposed requirements may be in conflict with, or additional to, the requirements of the Act, for example, the</p>	<p>We recommend that these paragraphs be deleted.</p> <p>We are supportive of the auditor communicating with its audit client on independence matters as required by the current independence framework but we are not supportive of the imposition of additional administrative and reporting requirements being placed on the auditor, above and beyond the existing legal and professional requirements, with no clear public interest resulting.</p>

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>										
<p>the <i>Corporations Act 2001</i>. The <i>Corporations Act 2001</i> includes specific restrictions on the employment relationships that can exist between the reviewed entity and its auditors. To assist us in meeting the independence requirements of the <i>Corporations Act 2001</i>, we request you discuss with us:</p> <ul style="list-style-type: none"> • The provision of services offered to you by [insert firm name] prior to engaging or accepting the service; • The prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee; 	<p>proposed requirement to report breaches immediately.</p> <p>Further, the exposure draft provides no guidance against which to measure whether the auditor’s processes are “appropriate” or not. It is likely that all auditors and audit firms will have a variety of different processes in place to achieve compliance with the Act.</p>											
<p><i>Refer to Appendix L</i></p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in a number of paragraphs of this ED has the effect of extending the mandatory requirement in other paragraphs.</p> <p>The table below provides examples</p> <table border="0" data-bbox="1117 873 1292 1433"> <tr> <td>Mandatory Paragraph</td> <td>Guidance Paragraph</td> </tr> <tr> <td>Paragraph 19</td> <td>Paragraph 21</td> </tr> <tr> <td>Paragraph 19</td> <td>Paragraph 23</td> </tr> <tr> <td>Paragraph 42</td> <td>Paragraph 43</td> </tr> <tr> <td>Paragraph 57</td> <td>Paragraph 59</td> </tr> </table>	Mandatory Paragraph	Guidance Paragraph	Paragraph 19	Paragraph 21	Paragraph 19	Paragraph 23	Paragraph 42	Paragraph 43	Paragraph 57	Paragraph 59	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”.</p>
Mandatory Paragraph	Guidance Paragraph											
Paragraph 19	Paragraph 21											
Paragraph 19	Paragraph 23											
Paragraph 42	Paragraph 43											
Paragraph 57	Paragraph 59											

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Appendix K – Examples of where a mandatory paragraph is extended by a guidance paragraph in ED 33/05 Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issue of AUS 306)

Paragraph 12

An auditor shall make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures at the assertion level, selection strategies and other procedures.

Paragraph 14

When establishing a preliminary assessment of materiality, pursuant to paragraph 12 of this Auditing Standard, the auditor is required to have regard to:

- (a) the reliability of management information;
- (b) factors which may indicate deviations from normal activities; and
- (c) qualitative factors (refer paragraphs 23-25).

Paragraph 23

The magnitude of a misstatement alone is only one factor used to assess materiality. Pursuant to paragraph 24 of this Auditing Standard, the auditor is required to review each misstatement in the context of information relevant to users of the financial report, by considering qualitative factors and the circumstances in which the misstatement or judgement has been made (refer paragraph 29).

Paragraph 24

The auditor shall consider qualitative factors, which impact on the materiality of individual misstatements, to assess:

- (a) **the significance of the misstatement to the particular entity;**
- (b) **the pervasiveness of the misstatement; and**
- (c) **the effect of misstatement on the financial report as a whole**

Paragraph 28

In evaluating the fair presentation of the financial report in accordance with an applicable financial reporting framework, the auditor shall assess whether the uncorrected misstatements that have been identified during the audit are material individually or in aggregate.

Paragraph 29

Pursuant to paragraph 28 of this Auditing Standard, the auditor is required, when reviewing individual misstatements, to assess quantitative or qualitative materiality. The auditor considers, for example, whether the item:

- (a) is capable of precise measurement or whether it arises from an estimate and if so, the degree of imprecision inherent in the estimate;
- (b) masks a change in earnings or other trends;
- (c) concerns a segment or other portion of the entity's business that has been identified as playing a significant role in the entity's operations or profitability;
- (d) affects compliance with regulatory requirements;
- (e) affects compliance with loan covenants or other contractual requirements;
- (f) has the effect of increasing management remuneration, for example, to satisfy the requirements for the award of bonuses or other incentives;
- (g) involves concealment of an unlawful transaction;
- (h) raises any other issues relating to the entity's business or industry;
- (i) may affect the decisions of users in response to certain types of disclosures.

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Appendix K – Examples of where a mandatory paragraph is extended by a guidance paragraph in ED 33/05 Proposed Auditing Standard: Materiality and Audit Adjustments (Re-issue of AUS 306)

Paragraph 31

In relation to individual uncorrected misstatements, pursuant to paragraph 28 of this Auditing Standard, the auditor is required to:

- (a) assess whether the qualitative factors are not material and the individual item can be aggregated with other misstatements with no further action regarding the individual misstatement; or
- (b) assess whether qualitative factors are material and that the misstatement requires correction by management; and
- (c) assess whether the qualitative issues may have any further impact on materiality and extend audit procedures as appropriate and consider further action such as:
 - (i) reporting the item to management together with other matters arising from the audit;
 - (ii) communicating findings to those charged with governance for resolution;
 - (iii) considering whether the matter is required to be reported to particular regulators, or third parties under a loan covenant;
 - (iv) considering the effect of the item on the audit opinion.

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Appendix L – Examples of where a mandatory paragraph is extended by a guidance paragraph in ED 36/05 Proposed Auditing Standard: Review of an Interim financial Report Performed by the Independent Auditor of an Entity

Paragraph 19

The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim financial reports, sufficient to plan and conduct the engagement so as to be able to:

- (a) identify the types of potential material misstatement and consider the likelihood of their occurrence; and
- (b) select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

Paragraph 21

Pursuant to paragraph 19 of this Standard, the auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, *and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied. [italicised section is the extension]*

Paragraph 23

Pursuant to paragraph 19, the auditor is required to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the interim financial report components, and the auditor's understanding of the extent to which internal control over the preparation of such reports is centralised or decentralised.

Paragraph 26

The auditor shall consider materiality, using professional judgement, when: (a) determining the nature, timing and extent of review procedures; and (b) evaluating the effect of misstatements.

Paragraph 42

The auditor shall inquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:

- (a) inquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
- (b) consider the adequacy of the disclosure about such matters in the interim financial report.

Paragraph 43

Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report or may be identified as a result of inquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, pursuant to paragraph 42 of this Standard, the auditor is required to inquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure

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Appendix L – Examples of where a mandatory paragraph is extended by a guidance paragraph in ED 36/05 Proposed Auditing Standard: Review of an Interim financial Report Performed by the Independent Auditor of an Entity

debt, reduce or delay expenditures, or increase capital. Ordinarily, the auditor inquires also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Pursuant to paragraph 42 of this Standard, the auditor is required to consider, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation.