

Ms Merran Kelsall  
Chairman  
Australian Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
VIC 8007

21 October 2008

Dear Ms Kelsall

**EXPOSURE DRAFT 11/08 PROPOSED AUDITING STANDARD ASA 600 *SPECIAL CONSIDERATIONS – AUDITS OF A GROUP FINANCIAL REPORT (INCLUDING THE WORK OF COMPONENT AUDITORS)* (REVISED AND REDRAFTED) (RE-ISSUANCE OF ASA 600)**

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attachment in response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts, where he deems it appropriate, rather than as a member of ACAG.

Members of ACAG support the proposed standard; however, we draw to your attention the matter raised under question 3 in the attached response.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Frank McGuinness  
Chairman  
ACAG Financial Reporting and Auditing Committee

**Exposure Draft 11/08 Proposed Auditing Standard ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)* (Revised and Redrafted) (Re-issuance of ASA 600)**

ACAG has reviewed the Revised Exposure Draft and provides responses to the five questions indicated and an overall comment.

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

All applicable laws and regulations have been appropriately addressed in the proposed standard that are relevant.

**2. Are there any references to relevant laws or regulations that have been omitted?**

There have been no references to relevant laws or regulations 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?**

We are not aware of any laws or regulations that would prevent the proposed standard being applied or conflict with the proposed standard. However, the following aspects of the proposed standard do not translate directly into government structures at the whole of government level.

The proposed standard requires the group engagement team to communicate to ‘group management’ certain matters relating to components. The matters include material weaknesses in controls which are judged to be significant to the group and instances of fraud or suspected fraud (paragraphs 46 and 47).

However, ‘group management’ is not readily identifiable in the typical Australian government arrangement at the whole of government level. At this level, there is often no single entity which can be identified as a parent entity, notwithstanding that a central Finance/Treasury agency will prepare a consolidated financial report for Government and would be interested in weaknesses or fraud which were likely to result in a qualification of that report.

Rather, responsibility for internal control is often by law at the individual subsidiary level e.g. in the Commonwealth’s case, with Chief Executive of agencies<sup>1</sup> or the governing board of corporate Commonwealth Authorities.

Accordingly, it may not be appropriate to require reporting certain matters to ‘group management’ at the whole of government level in the public sector. The requirement to report to group management might be appropriately modified for public sector entities by a reference to ‘where ultimate responsibility lies with group management’.

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<sup>1</sup> For example, the *Financial Management and Accountability Act 1997* section 44 gives the Chief Executive of an agency responsibility for the efficient, effective and ethical use of resources.

- 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 the audit services?**

The increased definition being provided to the requirements for a group audit is expected to benefit both the group and component auditors as well as to enhance the confidence of users of a group financial report.

The new requirements explaining the greater involvement of the group team in the audit of components are expected to result in additional resource and documentation costs.

Overall, as noted in the covering letter, the proposed standard is supported.

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

There are no other significant public interest matters that we wish to raise.

### **Additional Comments**

We recommend that following minor changes be made to the proposed ASA 600:

- Appendix 5 states that “matters required by this Auditing Standard to be communicated to the component auditor are shown in italicised text”, however unlike the international standard nothing has been italicised. In addition, dot point number 12 should be a heading instead of a dot point.
- Paragraph 9(e) is missing a reference to ‘(Ref: Para A4) at the end of the paragraph. This reference is included in ISA 600.
- Paragraph 14, footnote 5 – the title of ASA 210 should read as ‘Terms of Audit Engagements’.
- Paragraph A47 – Diagram – the second text box from the top right hand side of the diagram (page 47) should read as ‘Audit of the component’s financial information,\* or Audit of one or more account balances’.