

17 October 2008

The Chairman,  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

Via email to: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

Dear Ms Kelsall

### Exposure Drafts (EDs)

- 9/08: Proposed Auditing Standard ASA 230 *Audit Documentation***
- 10/08: Proposed Auditing Standard ASA 300 *Planning an Audit of a Financial Report***
- 11/08: Proposed Auditing Standard ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)***
- 12/08: Proposed Auditing Standard ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures***
- 13/08: Proposed Auditing Standard ASA 560 *Subsequent Events***
- 14/08: Proposed Auditing Standard ASA 570 *Going Concern***

The professional accounting bodies (the bodies) welcome the opportunity to comment on these six exposure drafts of revised Auditing Standards in *Clarity* format.

This letter is a response to all six exposure drafts. Remarks should be taken as applying to all of the draft standards except in cases where issues are unique to specific standards.

### Specific Questions

We offer the following comments on the questions posed in the EDs.

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

While most applicable laws and regulations appear to have been appropriately addressed the bodies would like the AUASB to consider the following:

#### **ED 11/08 (Proposed ASA 600) – Paragraph A35 – last dot point**

The last dot point of this paragraph suggests that the group engagement team may obtain an understanding of the component auditor by obtaining a *confirmation* from the professional body to which the component auditor belongs. It is not clear what such a

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

confirmation would entail. More clarification should be provided regarding what would be included in such a confirmation, whilst taking into consideration Australian privacy laws.

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

The Board should consider including references to APES 110 *Code of Ethics for Professional Accountants* at paragraphs 5(b) and 12(b) in ASA 300, which include reference to “ethical requirements” and “relevant ethical requirements”, respectively.

**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?**

The bodies are concerned that there is a conflict between ASA 570 and Part 2M.3 of the *Corporations Act*. The *Corporations Act* requires that it is Directors, as those “charged with governance”, that are to make a declaration as to solvency. On the other hand ASA 570 in several places states that it is management’s responsibility. These include, for example:

- Paragraph 1: “...with respect to management’s use of the going concern assumption in the preparation .....
- Paragraphs 4 and 5: Under the heading of *Responsibilities of Management*. (It is interesting to note that paragraph 3 includes “those charged with governance”, as does the Australian paragraph Aus3.1. Given that paragraph Aus3.1 is only an example, we are of the view that it may be better included as a footnote to paragraph 3, rather than as a separate requirement.)
- Paragraphs 12 to 14: Under the heading of *Evaluating Management’s Evaluation*.
- Paragraph 22: Under the heading of *Management Unwilling to make or Extend Its Assessment*.

The wording of this standard should be changed to avoid any possible ambiguity or inconsistency with the *Corporations Act 2001*. This can be achieved by a simple amendment to the standard so that where “management” is mentioned in relation to the solvency statement it is followed by the words “or those charged with governance”. Alternatively, the standard could include a definition or paragraph, that makes it clear that reference to management must be read as also including “those charged with governance”, in terms of the responsibility for the going concern assumption, for the purposes of this standard.

**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?**

Across the six EDs there are 68 new or elevated requirements with which auditors must comply. This is likely to increase costs for both auditors and businesses.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

We expect there will be ‘set up’ costs when the new standards come into effect. These include but are not limited to audit methodologies, training manuals and quality control documentation. The impact on individual firms will depend largely on the firm’s size and the sophistication of the firm’s audit manuals and other support material. Accounting firms will also need to alter aspects of letters sent to those charged with governance for an auditee to reflect new or elevated responsibilities.

The bodies also note that the move from the use of bold type in standards for the highlighting of mandatory duties will create transitional challenges for practitioners who are familiar with seeing mandatory requirements highlighted in bold. Recent feedback from members reveals some reservations about moving away from the format and appearance of the standards, with which they are very familiar. However, the move to using consistent type ensures our members treat the documents as a whole rather than using a ‘checklist’ mentality. The professional bodies see the change in format and type as no more than a transitional issue.

The bodies note that there are potential costs to be borne by auditees, given changes to the auditor/auditee relationship created by the redrafted standards. These costs include the need for auditees to become acquainted with the many new requirements to be undertaken by auditors, understanding the changes to the communications they receive (e.g., changes to engagement letters) and the need to provide a greater number of management representations (which auditors are now mandated to obtain in several standards – e.g., ASA 540, ASA 560 and ASA 570).

We acknowledge that it is in the public interest to implement these proposed standards by contributing to continued improvement in audit quality. However there is a need to allow practitioners sufficient time to implement the changes required by these pronouncements.

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

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

**Other Matters**

There are several other matters to which we wish to draw the Board’s attention.

**ED 9/08 (Proposed ASA 230)**

**Paragraph Aus 16.1**

It is not clear that this additional Australian paragraph is required. The matter addressed by the paragraph is covered by the requirements of APES 320. We are of the view that the paragraph is redundant and should be removed. This material could be included by way of a footnote reference at paragraph 7, similar to the wording currently included at Aus A24.1.

**Paragraph Aus A18.1**

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

It is not clear that this additional Australian paragraph is required. Auditors are required to have an holistic understanding of the requirements of an audit, and should be familiar with the requirement of ASA 200 stated in this guidance. We consider the paragraph to be redundant and should be removed.

## **ED 11/08 (Proposed ASA 600)**

### **Considerations Specific to Smaller Entities**

Many of the standards redrafted in *Clarity* format include paragraphs to assist auditors undertaking audits of smaller entities. Typically, these paragraphs are headed “Considerations Specific to Smaller Entities”. In ASA 600 there is no reference to any such considerations. Conceivably, for the purpose of this standard, a component may itself be a smaller entity, and therefore the component auditor may have conducted the audit taking into account the considerations specific to smaller entities (included in the various auditing standards). Therefore, it would be beneficial to practitioners if Application or Other Explanatory Material is provided as guidance where such situations exist. The Board may also wish to raise this matter with the IAASB. The bodies intend to raise this matter directly with the IAASB.

### **Paragraphs 19(a) and A37**

These paragraphs state that the group engagement team shall obtain an understanding that the component auditor *will* comply with the ethical requirements that are relevant to the group audit. It is not clear that at the stage of gaining an understanding of the component auditors whether it is possible for the group engagement team to obtain this understanding pertaining to the ethical requirements. This is highlighted by paragraph 41(a), whereby the component auditor communicates to the group engagement team, compliance with ethical requirements “after the event” and in response to a request from the group engagement team. This paragraph should be amended to clarify that the group engagement team shall obtain an understanding that the component auditor *undertakes to* comply with the ethical requirements that are relevant to the group audit.

### **Paragraph Aus 49.1**

It is not clear that this additional Australian paragraph is required. This requirement is implicitly addressed in preceding paragraphs (paragraphs 41 to 45). Furthermore, auditors are required to have an holistic understanding of the requirements of an audit, and should be familiar with the requirements included in the reporting standards: the “700 series” standards. We are of the view that the paragraph is redundant and should be removed.

### **Paragraphs A42(b) and A42(c)**

The guidance provided in these two paragraphs appears to merely replicate the requirements detailed in paragraphs 21 to 23. They do not add to the understanding of the requirements. Furthermore, the first line of paragraph A42 uses the word “required”, suggesting that rather

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

than being application or explanatory material, it is indeed itself a requirement. We understand that this is part of the IAASB pronouncement and are hesitant to depart from the text contained in the ISA. The Board should raise the matter of this wording with the IAASB in order to have the standard amended in the future.

### **Paragraph A52**

Footnoting is inconsistent in that an asterisk has been used, rather than the usual numbering in the reference to ASRE 2405.

### **Paragraph A53**

The last sentence of this paragraph is particularly difficult to comprehend. Furthermore, it is possible that it contradicts the requirements at paragraph 29. Paragraph 29 notes that the group engagement team may obtain sufficient audit evidence on which to base an opinion by: its work performed on financial information of significant components; work performed on group-wide controls; and analytical procedures performed at the group level. Only when sufficient evidence has not been obtained shall the group engagement team perform more work. Paragraph A53 refers to groups which may consist only of components that are not significant components. In these situations, paragraph 29 suggests that work performed on group-wide controls and analytical procedures performed at the group level, may provide sufficient audit evidence on which to form an opinion. The second sentence of paragraph A53 suggests that this is unlikely to be case. We suggest that this explanatory guidance be amended or removed.

### **ED 12/08 (Proposed ASA 540)**

This standard has particular relevance in the current economic climate, and we consider that it would be helpful to auditors, now and in the future, if guidance in connection with the auditor's responsibility regarding the interaction of subsequent movement in interest rates and AASB 110 *Events After the Balance Sheet Date* could be expanded.

### **Paragraph 13(c)**

Reference to paragraphs A84-A86 has been omitted at the end of this paragraph.

### **Paragraph 23(b)**

This paragraph requires the auditor to merely document the indicators of possible management bias. It does not require any documentation pertaining to how the existence of those indicators impacted the auditor's conclusions about the accounting estimates. Application material (paragraph A128) notes that such documentation will assist the auditor in forming conclusions, but does not suggest that the manner in which it assists be documented. The requirement at paragraph 21, and the documentation requirement included at paragraph 23(a) imply this. However, this is not clear and we suggest that this paragraph be amended to provide greater clarity of meaning.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



## **Paragraphs A6 and A7**

We note that the additional examples of situations requiring accounting estimates and fair value accounting estimates, do not include impairment testing of assets. While we recognise that such lists cannot include all possible accounting estimates that are made, it is surprising that such an important area of concern, particularly given the emphasis placed upon it in IFRS and the current economic climate, has not been mentioned.

## **Disclosures Related to Accounting Estimates**

We note that the Application and Other Explanatory Material for this standard is extensive and very detailed. While we recognise that the matters dealt with by this standard are particularly contentious and topical, especially in the current economic climate, we make the observation that detailed discussion of the “Disclosures Related to Accounting Estimates” (paragraphs A120 to A123) may be “straying” into an area that is seen by some as being interpretative of the financial reporting framework.

## **ED 14/08 (Proposed ASA 570)**

### **Paragraph Aus11.1**

It is not clear that this additional Australian paragraph is required. This “requirement” is for an auditor to “consider” an effect on the auditor’s assessment of risks of material misstatement. We are of the view that this consideration is adequately covered by paragraph A6 and the requirements of ASA 315. We consider that the paragraph is redundant and should be removed.

### **ED 14/08 (Proposed ASA 570) – Paragraph Aus13.1**

It is not clear that this additional Australian paragraph is required. While we recognise that the need to define “relevant period” is especially important in the Australian context, it would be preferable to provide this definition by way of footnote to paragraph 13.

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



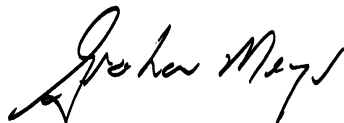
[nia.org.au](http://nia.org.au)

The bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



**Geoff Rankin**  
Chief Executive Officer  
CPA Australia Ltd



**Graham Meyer**  
Chief Executive Officer  
Institute of Chartered Accountants



**Roger Cotton**  
Chief Executive Officer  
National Institute of Accountants

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)