



22 November 2010

Mr Jeffrey Lucy AM
Chairman
Financial Reporting Council
c/ The Treasury
Langton Crescent
Canberra ACT 2600

Dear Jeffrey,

Public Company Accounting Oversight Board (PCAOB) Issuance of new risk-related Auditing Standards – AS No's. 8-15

As agreed in our letter dated 20 September 2010, the AUASB has now conducted an analysis of the differences, if any, between the PCAOB's risk-related Auditing Standards and the AUASB's comparable *Clarity* Auditing Standards.

The following are overall findings, with the more detailed findings contained in *Attachment 1* to this letter:

1. The PCAOB risk-related Auditing Standards contain requirements only, with no guidance material. In comparison, Australian Auditing Standards (and the IAASB's International Standards on Auditing) contain both requirements and related application and other explanatory material ("guidance material"). In terms of the authoritative status of the guidance material, Auditing Standards ASA 101 *Preamble to Australian Auditing Standards* and ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* both contain requirements for auditors to consider and understand the entire text of an Auditing Standard, including guidance material, in the conduct of their audit engagement. This means that auditors are not able to disregard relevant guidance material, which is included in all Australian Auditing Standards (and their underlying standards, the International Standards on Auditing), to assist auditors understand the objectives of each Auditing Standard and to apply its requirements properly.
2. The PCAOB previously issued Auditing Standard No. 5 *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements*, which was developed specifically in response to the requirements contained in the Sarbanes-Oxley Act 2002 (the Act) regarding integrated audits. Auditing Standard No. 5 prescribes the requirements for auditors performing an integrated audit engagement in accordance with section 404 of the Act. Given the Sarbanes-Oxley Act is unique and particular to the U.S statutory reporting framework environment, its requirements (and those of related Auditing Standard No. 5) have no authoritative basis in Australia and is therefore unable to be applied.

The issue of these risk-related auditing standards continues the PCAOB's process of developing its own suite of auditing standards, although its suite is clearly not yet as comprehensive as the International Standards on Auditing ("ISAs") issued by the IAASB. The PCAOB's late development of these selected risk-related Auditing Standards is in marked contrast to the IAASB's comprehensive ISA suite, which have been in place for a number of years, and were revised and reissued in *Clarity* format last year. As you are aware, Australian Auditing Standards (ASAs) are based on the ISA suite, and were also revised and reissued in

Clarity format in October 2009. Importantly, the PCAOB having had the benefit of the already issued ISA suite, has, in substance, closely aligned its new risk-related Auditing Standards with the ISA suite. Consequently, its requirements are neither different to, nor more comprehensive than, our existing ASAs.

The ASAs have comparative requirements with the PCAOB's risk-related Auditing Standards. The differences between these Auditing Standards are primarily due to the differences in standard-setting approach and regulatory framework between Australia and the U.S. At the core is the fundamental distinction between the PCAOB's prescriptive standards and the ASAs' principles-based approach, which emphasises the use of professional judgement in the specific circumstances of the audit engagement.

The AUASB considers that the existing suite of ASAs are sufficiently robust in their risk-related requirements as compared to the PCAOB, and consequently, the AUASB has not identified any need to change at this time.

Yours sincerely,

Merran Kelsall
Chairman

cc Richard Mifsud
Executive Director

encl. *Attachment 1*

**Attachment 1 – AUASB Comparison of Clarity Australian Auditing Standards and PCAOB’s Proposed risk-related Standards
(Auditing Standard’s No. 8-15)**

PCAOB’s Proposed Standard	Clarity Australian Auditing Standards	Difference
<p>Auditing Standard No. 8 <i>Audit Risk</i></p>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in ASA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>.</p> <p>The remainder of requirements are contained in the requirement and/or application and other explanatory material of ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>.</p>	<p>The AUASB’s review of the differences between the proposed AS No. 8 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>
<p>Auditing Standard No. 9 <i>Audit Planning</i></p>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in ASA 300 <i>Planning an Audit of a Financial Report</i></p> <p>The remainder of requirements are contained in the requirements and/or application and other explanatory material of the following Auditing Standards:</p> <ul style="list-style-type: none"> (a) ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>; (b) ASA 600 <i>Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)</i>; (c) ASA 610 <i>Using the Work of Internal Auditors</i>; and (d) ASA 620 <i>Using the Work of an Auditor’s Expert</i>. 	<p>The AUASB’s review of the differences between the proposed AS No. 9 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>

PCAOB's Proposed Standard	Clarity Australian Auditing Standards	Difference
Auditing Standard No. 10 <i>Supervision of the Audit Engagement</i>	<p>The equivalent requirements and/or application and other explanatory material are contained in the following Auditing Standards:</p> <ul style="list-style-type: none"> (a) <i>ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information;</i> (b) <i>ASA 300 Planning an Audit of a Financial Report;</i> and (c) <i>ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.</i> 	<p>The AUASB's review of the differences between the proposed AS No. 10 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>
Auditing Standard No. 11 <i>Consideration of Materiality in Planning and Performing an Audit</i>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in <i>ASA 320 Materiality in Planning and Performing an Audit.</i></p> <p>The remainder of requirements are contained in the requirement and/or application and other explanatory material of <i>ASA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors).</i></p>	<p>The AUASB's review of the differences between the proposed AS No. 11 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>
Auditing Standard No. 12 <i>Identifying and Assessing Risks of Material Misstatement</i>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in <i>ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i></p> <p>The remainder of requirements are contained in the requirements and/or application and other explanatory material of the following Auditing Standards:</p>	<p>The AUASB's review of the differences between the proposed AS No. 12 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>

PCAOB's Proposed Standard	Clarity Australian Auditing Standards	Difference
	<ul style="list-style-type: none"> (a) ASQC 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements</i>; (b) ASA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i> (c) ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i>; (d) ASA 330 <i>The Auditor's Responses to Assessed Risks</i>; and (e) ASA 520 <i>Analytical Procedures</i>. 	
<p>Auditing Standard No. 13 <i>The Auditor's Responses to the Risks of Material Misstatement</i></p>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in ASA 330 <i>The Auditor's Responses to Assessed Risks</i>.</p> <p>The remainder of requirements are contained in the requirement and/or application and other explanatory material of the following Auditing Standards:</p> <ul style="list-style-type: none"> (a) ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i>, and (b) ASA 520 <i>Analytical Procedures</i>. 	<p>The AUASB's review of the differences between the proposed AS No. 13 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>

PCAOB's Proposed Standard	Clarity Australian Auditing Standards	Difference
<p>Auditing Standard No. 14 <i>Evaluating Audit Results</i></p>	<p>The equivalent requirements and/or application and other explanatory material are contained in the following Auditing Standards:</p> <ul style="list-style-type: none"> (a) <i>ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information;</i> (b) <i>ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report;</i> (c) <i>ASA 260 Communications with Those Charged with Governance;</i> (d) <i>ASA 300 Planning an Audit of a Financial Report;</i> (e) <i>ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment;</i> (f) <i>ASA 320 Materiality in Planning and Performing an Audit;</i> (g) <i>ASA 330 The Auditor's Responses to Assessed Risks;</i> (h) <i>ASA 450 Evaluation of Misstatements Identified during the Audit;</i> (i) <i>ASA 520 Analytical Procedures;</i> (j) <i>ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;</i> and (k) <i>ASA 700 Forming an Opinion and Reporting on a Financial Report.</i> 	<p>The AUASB's review of the differences between the proposed AS No. 14 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>

PCAOB's Proposed Standard	Clarity Australian Auditing Standards	Difference
<p>Auditing Standard No. 15 <i>Audit Evidence</i></p>	<p>The majority of equivalent requirements and/or application and other explanatory material are contained in ASA 500 <i>Audit Evidence</i>.</p> <p>The remainder of requirements are contained in the requirement and/or application and other explanatory material of the following Auditing Standards:</p> <ul style="list-style-type: none"> (a) <i>ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report,</i> (b) <i>ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment,</i> and (c) <i>ASA 330 The Auditor's Responses to Assessed Risks.</i> 	<p>The AUASB's review of the differences between the proposed AS No. 15 and Australian Auditing Standards did not identify any requirements not already included in the Australian Auditing Standards.</p>