

Ms Merran Kelsall
Chairman
Australian Auditing and Assurance Standards Board
PO Box 204
Collins Street
Melbourne
VIC 8009

3 February 2014

Dear Ms Kelsall

Re: Exposure Drafts ED 05/13, ED 06/13 and ED 07/13

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on Exposure Drafts:

- ED 05/13 Proposed Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ED 05/13),
- ED 06/13 Proposed Framework for Assurance Engagements (ED 06/13); and
- ED 07/13 Proposed Conforming Amendments to ASAE 3402, ASAE 3410 and ASAE 3420 as a Result of Proposed Re-issuance of ASAE 3000 (ED 07/13)

(collectively referred to as the EDs).

Proposed Departures from ISAE 3000

In considering the EDs and in preparing this response we have referred to the *Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB) and Harmonisation with the Standards for the New Zealand Auditing and Assurance Standards Board (NZ AuASB)* (Principles of Convergence) paper issued by the AUASB in November 2012.

It states in paragraph 3, "In implementing the FCR's strategic direction, the AUASB has determined the following objectives:

- to adopt international auditing and assurance standards in Australia unless there are strong reasons not to (which the board describes as "compelling reasons"); and
- to work ... based on international standards"

Paragraph 9 of the Principles of Convergence states "The international standards should be adopted, and should be amended only if there are compelling reasons to do so".

Furthermore, paragraph 10 states "In the case of an international standard that is being reviewed for the purpose of adoption in Australia, compelling reasons for modifications in the public interest include where:

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1. the international standard does not reflect, or is not consistent with:
 - a. the Australian Regulatory arrangements; or
 - b. principles and practices that are considered appropriate in Australia (including in the use of significant terminology); and
2. the standard can be modified so as to result in a standard that:
 - a. promotes significant improvements in audit quality in the Australian environment; and
 - b. does not conflict with, or result in lesser requirements than the international standard; and
3. the relative benefits of making a change outweigh the costs (with costs primarily being compliance costs and benefits primarily relating to audit quality).”

The standards of the IAASB are developed following an extensive due process including oversight by the Public Interest Oversight Board to ensure that they are developed in the public interest. In revising IASE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), the IAASB spent a considerable amount of time deliberating the work effort required for both reasonable and limited assurance engagements. This included consideration of how it might differ at all stages of the engagement: planning, performing the engagement and forming a conclusion based on the evidence obtained. The work effort at the planning stage of the engagement, including the level of understanding required, was the subject of extensive debate and a matter upon which input was received on exposure, for both ISAE 3000 and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements (ISAE 3410). As is noted in paragraph 32 of the IASE 3000 Basis for Conclusions, after deliberating the responses, the IAASB concluded that in a limited assurance engagement it was not necessary to perform a risk assessment or obtain an understanding of internal control over the subject matter information as a basis for identifying the areas where material misstatements are likely to arise.

ED 05/13 proposes that the assurance practitioner be required to undertake the same risk assessment and obtain the same level of understanding of internal controls for both limited and reasonable assurance engagements being a divergence from ISAE 3000. ED 05/13 does not explain the basis upon which the AUASB has concluded that it is necessary to depart from the ISAE 3000 in this regard; including the factors that the AUASB considered which caused it to believe that the Australian assurance market is different to the international one. Furthermore, ED 05/13 does not include any analysis of what, if any, benefits will be achieved relative to what we consider likely to be significant additional costs to perform limited assurance engagements.

Accordingly, we do not believe that the compelling reasons test has been satisfied by the AUASB in proposing this divergence from ISAE 3000.

Finally, we note that amending international standards when there are no regulatory requirements necessitating a divergence challenges the integrity of the international standard setting process. In our opinion, key stakeholders (our clients, our people and the regulators) lose confidence in the profession and standard setting process when we seek to have a different version of international standards in different jurisdictions.

We strongly urge the AUASB to reconsider this proposal.

Compliance with Independence, other Ethical Requirements and Quality Control Standards

In revising IASE 3000, the IAASB acknowledged that competent practitioners who are not professional accountants in public practice should be permitted to apply the ISAE. As is stated in the Basis for Conclusions, paragraph 59 “The IAASB acknowledged the reality that it is not able to prevent individuals from asserting compliance with its standards, and that it would be preferable to instead set out clear requirements for individuals who assert compliance with ISAE 3000.”

As a result, the IAASB included additional reporting requirements that make clear in the practitioner’s report the specific ethical and quality controls standards followed, when these are not the International Ethical Standards Board for Accountants (IESBA) Code or International Standard on Quality Control 1 (ISQC1). The IAASB noted that such requirements serve to provide users with the transparency necessary in the circumstances.

We recommend that the AUASB consider whether this would be a more appropriate approach to apply to the use of the AUASB assurance standards by assurance practitioners who are not members of the professional bodies in Australia. These assurance practitioners are not otherwise subject to the requirements of ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements and ASQC1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 7288.

Yours sincerely



Cathlin Mc Cabe

Partner

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