



MINUTES
AUDITING AND ASSURANCE STANDARDS BOARD

Minutes of the thirty-second meeting of the Auditing and Assurance Standards Board (AUASB), held at the offices of the AUASB, Melbourne, from 9.00 a.m. to 5.00 p.m. on Monday 21 July and 8.45 a.m. to 11.30 a.m. on Tuesday 22 July 2008.

All agenda items were discussed in public.

ATTENDANCE

Members present

Merran Kelsall - Chairman
Jon Tyers – Deputy Chairman
Dianne Azoor Hughes
Mike Blake
Valerie Clifford
John Gavens
Chris Hall
Elizabeth Johnstone
Professor Christine Jubb
Ian McPhee (Day 1)
Clive Mottershead
Greg Pound
David Simmonds

Apologies

Ian McPhee - Day 2 (other than Agenda Item 6)

Staff in attendance

Richard Mifsud – Executive Director
Howard Pratt – in part
Susan Fraser – in part
Johanna Foyster – in part
Claire Grayston – in part
Alan Marrone

DECLARATIONS OF INTEREST

(Agenda item 1 – Minute 411)

“Declaration of Interests” forms completed by Members were tabled.

No declarations of interest in an issue before the AUASB were noted.

The Chairman will report on the consistency of the “Declaration of Interests” with FRC practice, at the next meeting.

MINUTES

(Agenda item 2 – Minute 412)

The Board considered the minutes of the thirty-first meeting of the AUASB held 2-3 June 2008, and approved the minutes subject to some minor amendments.

MATTERS ARISING FROM ACTION ITEMS NOT DEALT WITH ELSEWHERE

(Agenda item 3 – Minute 413)

Matters arising brought forward

Matters arising brought forward from previous AUASB meetings not dealt with as separate agenda items:

- ISQC1 – Further to the decision taken by the Board at the 14 April 2008 meeting, that there was a convergence obligation on the AUASB to adopt ISQC1 (refer Minute 395), the Board has agreed to include the Clarity version of ISQC1 as part of the suite of legally enforceable standards. The AUASB is liaising with the APESB on this matter in light of APES 320, which presently incorporates the current ISQC 1. The APESB secretariat has requested that the AUASB write to the APESB regarding this matter prior to their next meeting.
- ASA 508 *Enquiry Regarding Litigation and Claims* (implications of *Westpac Case*) – The Board was informed that there have been no further developments since the previous meeting regarding ASA 508 representation letters and the related legal privilege issues. Staff were requested to monitor this matter, liaise with Treasury and report on any developments at the next meeting.

REPORTS FROM AUASB CHAIRMAN AND CORPORATE MATTERS

(Agenda item 4 – Minute 414)

(a) Reports on recent meetings attended:

Chairman

The Chairman and Executive Director have attended further meetings with constituents to seek advice on the application date of the Redrafted ASAs (in “Clarity” format), including mid-tier audit firms and an information technology provider to such firms.

FRC meeting held 11 June – key issues:

- ASA Redrafting – Clarity Project:
 - Decision of the AUASB to revise and reissue Australian Auditing Standards in a new “Clarity” format, on the same basis as the equivalent International Standards on Auditing (ISAs), operative for reporting periods commencing on or after 1 January 2010, was noted by the FRC.
 - Importance of training for small and medium firms noted.
 - Conformity with IAASB considered important by FRC.

- AUASB business plan and budget for the year ending 30 June 2009 was approved – based on 8.5 FTE technical staff. It was recommended that the AUASB apply for CUMA (Companies Unclaimed Monies Account) funding for new projects.
- FRC expressed satisfaction with the direction and work of the AUASB.
- IAASB nominations – it was noted that there will be two public member vacancies on the Board as of December this year.
- Highlights of FRC meeting held 11 June 2008 were tabled.

TTAASAG Meeting 27 June – key issues:

- Report from the nominations sub-committee - The group noted the valuable role that cross-appointees perform in promoting communication and informing development of standards in both countries. Australian Treasury and the NZ Minister for economic development are to prepare a paper for the next meeting, exploring the appropriate role of cross-appointees and options on voting rights within the existing legislative frameworks.
- Presentation by Mr Ian McPhee on the IAASB's role, recent activities and future direction.
- Update on emissions trading – IAASB's revised work program indicating an exposure draft by 2009 and a standard by 2010 was noted. These may not be in time for domestic emissions trading schemes.
- Update on IFRS Regional Policy Forum and possible establishment of a steering committee.
- Update on New Zealand's Financial Reporting Framework Review.
- Update on New Zealand's review of its audit regulation framework (including auditor liability).

Other meetings attended by the Chairman:

- Meeting with FRC and Sir David Tweedie (IASB Chairman) on IFRS matters

(b) Corporate Matters

Transition to Financial Management Accountability Act

The Chairman and Executive Director are working with Treasury staff to progress the transition of the AUASB to a Statutory Committee and the Office of the AUASB to an FMA Act Agency from 1 July 2008 as smoothly as possible.

Major changes noted:

- AUASB is now a statutory committee responsible for setting auditing standards.
- Office of the AUASB employs technical staff and provides administrative support. M Kelsall is the CEO and reports to the Head of Treasury.

- FRC will still provide AUASB with strategic direction and appoint Board Members, however, budgets are now to be approved by Treasury.

Copies of the Explanatory Memorandum on the Governance Review Implementation (AASB and AUASB) Bill 2008 and the amended ASIC Act 2001, which outline in detail the new status of the AUASB were provided to Board members.

REVIEW ENGAGEMENTS

(Agenda item 5 – Minute 415)

The Board considered final versions of the proposed standards on Review Engagements for approval to issue:

- ASRE 2400 *Reviews of Financial Reports Performed by an Assurance Practitioner Who is not the Auditor of the Entity*
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*
- ASA 2008-1 *Amendments to Australian Auditing Standards (Amendments to ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity)*

The Board agreed that the three standards would be applicable for engagements commencing on or after 1 October 2008, and requested a number of other amendments, including:

- Management representation paragraphs – “management and where appropriate, those charged with governance”.
- Consistency between ASRE 2400 and ASRE 2405 to be checked.
- Allowance of early adoption to be deleted from application paragraphs.

It was agreed that where the IAASB is proposing future changes to ASRE 2410, these would not be made in the current ASRE 2410. It was also noted that there is a possible defect in ISRE 2410 dealing with the work of experts – this is to be communicated to the IAASB.

Final revisions of the proposed standards together with Regulatory Impact Assessments will be considered for out of session approval early August and it is anticipated that the standard will be released in mid August.

A compiled version of ASRE 2410 will also be prepared and released with the above standards. This will comprise the original ASAE 2410 (28 April 2006) as amended by ASA 2007, and ASA 2008-1.

ASAE 3500 – PERFORMANCE ENGAGEMENTS

(Agenda item 6 – Minute 416)

The Board considered a staff paper on comments received in respect of ED 1/08 and a further draft of the proposed Assurance Standard on Performance Engagements.

The Board agreed that ASAE 3500 would be applicable for reporting periods or engagements commencing on or after 1 January 2009 and requested a number of amendments including:

- Inclusion under Ethical requirements – Para 22 “Where the practitioner is not able to comply with the fundamental ethical principles, including those relating to independence, the practitioner can not claim compliance with this ASAE. In such circumstances, ASAE 3500 may still provide useful guidance.
- Amendments to maintain consistency with ASAE 3000 and ASAE 3100.

The Standard was approved subject to these amendments and will be released in late July.

The Chairman thanked Mr McPhee and Mr Blake for their input and involvement with the Project Advisory Group and liaison with other Auditors General on this project.

The Chairman and Mr Mifsud are to meet with a representative of the Institute of Internal Auditors to address ED response issues including clarification of which Assurance Standards apply to internal auditors.

GS 009 FINANCIAL AND COMPLIANCE AUDITS OF SELF MANAGED SUPERANNUATION FUNDS

(Agenda item 7 – Minute 417)

The Board considered a further draft of the proposed Guidance Statement GS 009 *Financial and Compliance Audits of Self-Managed Superannuation Funds*. The Board requested a number of amendments and that the revised Guidance Statement be circulated for further review and out-of-session approval, if possible.

Release of the Guidance Statement is anticipated in late August/early September.

ASA REDRAFTING (CLARITY FORMAT)

(Agenda items 8 Minute - 418)

The Board received an update on the progress of the project.

The Chairman reported on the FRC meeting held on 11 June 2008, which noted the decision of the AUASB to revise and reissue Australian Auditing Standards in a new “Clarity” format, on the same basis as the equivalent International Standards on Auditing (ISAs). The proposed Auditing Standards will be progressively released for comment as exposure drafts with a 30 day comment period. It is expected that the revised Auditing Standards will be finalised by October 2009, and will be operative for reporting periods commencing on or after 1 January 2010.

The Board considered supporting papers and draft versions, in clarity format, of exposure drafts of the following proposed revised Auditing Standards:

- ASA 240 *The Auditor’s Responsibilities relating to Fraud in an Audit of a Financial Report*
- ASA 260 *Communicating with Those Charged with Governance*
- ASA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*
- ASA 330 *The Auditor’s Procedures in Response to Assessed Risk*

The Board approved the issue of the above EDs – to be released on 31 July 2008.

INTERNATIONAL MATTERS

(Agenda item 9 – Minute 419)

The Board received reports on the following:

(a) IAASB meeting – 16-20 June 2008

The Board received an update on the outcomes of the June IAASB meeting.

(b) ISA 210 *Terms of Engagements* project update

The Board received an update on the project. The technical group is presently finalising ISA 210 for consideration and approval at the September IAASB meeting.

NATIONAL GREENHOUSE AND ENERGY REPORTING

(Agenda item 10 – Minute 420)

The Board received an update on recent developments:

The Australian Government released the Carbon Pollution Reduction Scheme – Green Paper in July. The paper does not fully address audit issues – the AUASB is to continue to liaise with the Dept. of Climate Change.

GAAP/GFS AASB 1049 AUDIT ISSUES

(Agenda item 11 – Minute 421)

The Board received an update on matters recently raised with the Chairman of the Australian Accounting Standards Board regarding the audit implications of AASB 1049 *Whole of Government and General Government Sector Financial Reports*. Issues concerning the form of the auditor's report and the audit of budgets and budget variance explanations are currently being considered by the AUASB Project Advisory Group and the various Auditors General.

OTHER MATTERS

(Agenda item 12 – Minute 422)

(a) ASIC Regulatory Guide 69 *Debentures – Improving Disclosures for Retail Investors*

The Board received an update on the form of the auditor's report in the proposed revised ASIC Regulatory Guide 69, and requested that its views be conveyed to ASIC. The AUASB will liaise with ASIC on the form and content of the auditor's report for 2008.

(b) APESB ED 03/08 Proposed Standard APES 210 *Conformity with Auditing and Assurance Standards*

The AUASB's response to ED 03/08 was tabled.

(c) Application of the AUASB Standards to Internal Audit

The Board discussed this matter in relation to Item 6 (Refer Minute 416). It recognised that the standards should apply wherever possible, but acknowledged that the need for internal auditors to be independent could prove an impediment to the application of various auditing and assurance standards such as ASAE 3100 and ASAE 3500.

Other Emerging Issues

No other emerging issues were noted.

NEXT MEETING

The next meeting of the AUASB will be held in Melbourne on Tuesday 9 September 2008.

There being no further business, the Chairman declared the meeting closed.

Signed as a true and correct record.

M H Kelsall
Chairman

9 September 2008