

The Chairman
Auditing and Assurance Standards Board
Level 4
530 Collins Street
MELBOURNE VIC 3000

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

2 February 2006

Dear Ms Kelsall

Group 4 and 5 Exposure Drafts: ED 27/05 - 36/05

We appreciate the opportunity to comment on the above mentioned Exposure Drafts (EDs) and to contribute to the continued improvement of the Australian auditing standards. We contributed to and support the group submission on these EDs, made on behalf of the profession, a copy of which is attached. In addition, we have attached some specific comments on particular EDs in Appendices 1 to 2.

We continue to support the overall approach taken by the Auditing and Assurance Standards Board (AUASB) in redrafting the auditing standards to enable them to have the force of law and commend the AUASB on the progress made to date.

We would be pleased to discuss our comments with you. Please contact me on (02) 8266 2824 for additional information.

Yours sincerely



Mark Johnson
Assurance Leader



1. ED 27/05 Inquiry Regarding Litigation and Claims

Para	Issue	Recommendation
15	The matter described in the last bullet point of this paragraph should be built into the template letter included in the Appendix.	In future solicitors may be less willing to provide specific details about legal cases, however they should still be able to explain the reasons for not providing details. Including this paragraph in the letter may help to reduce the amount of follow-up required because solicitors simply decide not to respond.
18	<p>The reference to “shall be obtained” may be difficult to achieve in practice. It is unreasonable to assume that auditors will be able to obtain representation letters from all in house legal counsel, in instances where external legal counsel would be unlikely to provide the letter.</p> <p>The recent legal decision in the 789Ten case applies equally to internal legal counsel and external legal firms.</p>	The paragraph should be reworded to be consistent with the requirements relating to third party legal counsel, i.e. “shall <i>endeavour</i> to obtain”
28	The guidance in this paragraph needs to be expanded.	<p>The lack of detailed responses from lawyers may become a more frequent occurrence after the decision in the 789Ten Case.</p> <p>The guidance needs to be expanded to provide more detail around other procedures that auditors can perform in this circumstance.</p>
General	It is not clear in the standard what steps the auditor should carry out in the event that they are unable to communicate (verbally or in writing) with the client’s legal counsel. As highlighted in the Group submission, this situation is likely to occur more frequently.	We support the Group submission and emphasise the need for clear guidance for the auditor to apply when faced with an inability to communicate effectively with legal counsel.

2. ED 28/05 Audit Sampling and Other Means of Testing

Para	Issue	Recommendation
39,62	Inappropriate use of “pursuant to...”, where the explanatory guidance appears to extend the mandatory requirements.	As recommended in the Group submission, the Board should reconsider the appropriateness of the “pursuant to ... is required to” formulation.

3. ED 29/05 Audit of Accounting Estimates

Para	Issue	Recommendation
16	Inappropriate use of “pursuant to...”, where the explanatory guidance appears to extend the mandatory requirements.	As recommended in the Group submission, the Board should reconsider the appropriateness of the “pursuant to ... is required to” formulation.
23	The first sentence of this paragraph reads “Pursuant to paragraph 14(a) of this Auditing Standard, the auditor is required to perform...”. The requirement of paragraph 14 relates to an option that the auditor has available to him. As such it is misleading to say that the auditor is required to do this because they are only required to do this, if they test an estimate using the method described in paragraph 14(a).	Amend the paragraph to make it clear that the auditor is only required to do this if they have elected to test an estimate applying the method described in paragraph 14(a).
26	The paragraph refers to obtaining ‘independent estimates’ as a means of gaining audit evidence about accounting estimates. It describes what the auditor would ‘ordinarily’ do, if they were using an ‘independent valuation’ as audit evidence. Such ‘independent valuations are likely to be performed by ‘experts’.	As this work is in many instances going to be performed by an expert, the paragraph should refer the auditor to AUS 606 <i>Using the work of an expert</i> .

Para	Issue	Recommendation
33	The last bullet point talks about the auditor obtaining representations to the effect that no subsequent events have occurred which would require adjustments to an accounting estimate and disclosure in the financial statements. The bullet point implies that the auditor would ordinarily only seek representations about those events which impact both the size of the estimate and the nature of the disclosure of the estimate. However this ignores situations where the event only impacts on either the size of the estimate or the way the estimate is disclosed.	The word “or” should be added after “and”.

4. ED 30/05 Using the Work of Another Auditor

Para	Issue	Recommendation
13	The word ‘ordinarily’ has not been used in this paragraph. This is not consistent with the drafting guidelines included in the preamble.	Replace the first part of the paragraph with ‘In considering the professional competence of the other auditor the principal auditor ordinarily considers.....’
15,20	Inappropriate use of “pursuant to...”, where the explanatory guidance appears to extend the mandatory requirements.	As recommended in the Group submission, the Board should reconsider the appropriateness of the “pursuant to ... is required to” formulation.
25	The last sentence in this paragraph provides that a parent company auditor may have a statutory obligation to disclose the details, in the consolidated audit report, of modifications at the subsidiary level.	The sentence should be reworded to state “ ... the principal auditor may <i>in some instances</i> have a statutory obligation ...” to make it clear that the auditor does not always have this statutory obligation.

5. ED 31/05 Considering the Work of Internal Audit

No specific comments

6. ED 32/05 Comparatives

Para	Issue	Recommendation
11	The paragraph is worded: “Pursuant to paragraph 8 of this Auditing Standard, the auditor follows the mandatory requirements and explanatory guidance in AUS 510, when the financial report of the prior period is not audited.” This is inappropriate use of “pursuant to ..” and does not make sense.	Revert to the wording of the ISA (amended for Australian references): “When the financial statements of the prior period were not audited, the incoming auditor nonetheless assesses whether the corresponding figures meet the conditions specified in paragraph 9 above and also follow the guidance in AUS 510”.
22	“and appendix” at the end of the paragraph needs to be removed.	Remove phrase
24	This mandatory paragraph states: “The auditor shall encourage clear disclosure ...”. It is unclear what would constitute sufficient “encouragement”.	Additional explanatory guidance is required.

1. ED 33/05 Materiality and Audit Adjustments

Para	Issue	Recommendation
10,14, 21,30, 31	Inappropriate use of “pursuant to...”, where the explanatory guidance appears to extend the mandatory requirements.	As recommended in the Group submission, the Board should reconsider the appropriateness of the “pursuant to ... is required to” formulation.

2. ED 34/05 Communication of Audit Matters With Those Charged with Governance

Para	Issue	Recommendation
10	Minor editorial change	Change “...senior executives <i>is</i> responsible ...” to “... <i>are</i> responsible...”.
16	Editorial change	Change the first line to read “Ordinarily such audit matters of governance interest include the following:”
20-24	The mandatory requirements and guidance in these paragraphs extend the auditor’s independence requirements beyond the scope of the Corporations Act.	Paragraphs 20 – 24 should be removed.

3. ED 35/05 The Auditor’s Report on Special Purpose Audit Engagements

Para	Issue	Recommendation
27,29	Inappropriate use of “pursuant to...”, where the explanatory guidance appears to extend the mandatory requirements.	As recommended in the Group submission, the Board should reconsider the appropriateness of the “pursuant to ... is required to” formulation.

4. ED 36/05 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

Para	Issue	Recommendation
General	The Standard is referred to as “this Standard” throughout.	The standard should be referred to as an “Auditing Standard” to be consistent with the other standards, or alternatively as an “ASRE”.
7	Whilst the wording of this paragraph is consistent with the Preamble, it is not clear what the difference is between paragraph 7(b)(i) and 7(b)(ii).	Delete paragraph 7(b)(i) as it has a similar meaning to 7(b)(ii). The ISA refers only to the “reasons” for the departure. This would also impact the Preamble and all other Auditing Standards containing this “departure” paragraph.
92	Editorial	There needs to be consistency in all the standards in the use of “material” or “significant” when describing an “uncertainty”.