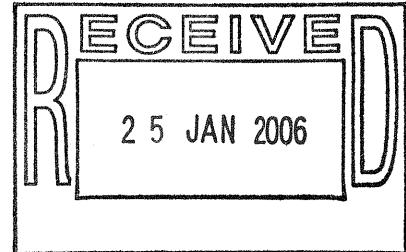


GB/cr: 051215

14 December 2005

Ms Merran Kelsall  
Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007



Dear Ms Kelsall

**COMMENTS ON GROUP 2 EXPOSURE DRAFTS OF PROPOSED AUDITING STANDARDS  
ISSUED BY THE AUDITING AND ASSURANCE STANDARDS BOARD**

We write in response to the request for comments contained in the Group 2 exposure drafts issued on 28 October 2005.

We have set out our general comments below and specific comments, where relevant, on the exposure drafts in Appendix One.

**General comments**

***Timeline for Implementation***

There are a number of instances where existing explanatory guidance is being elevated to the status of mandatory requirements. We believe that the timeframe for the implementation of these standards and the education of auditors and clients on these changes is tight which would not be in the best interest of the public.

***Ethical codes***

The mandatory requirements in the exposure drafts refer to the ethical codes issued by CPA Australia and the Institute of Chartered Accountants in Australia. These mandatory requirements are proposed to have the force of law, and therefore clarification is required regarding the accounting bodies ability to establish and enforce legal instruments.

In addition, would all paragraphs of these codes be legally binding and constitute a breach since some paragraphs are not necessarily as significant as others?

In addition, certain paragraphs in the ethical code are judgemental such as professional competence and ethical behaviour which may make it difficult to determine a breach.

Clarification is also required regarding the extent of the ethical code, for example if a breach occurred by a member of the audit team on one audit, would all other audits on which they have worked also contain a breach?

### **IAASB Clarity Project**

We understand that the IAASB are undergoing a 'Clarity' review process and appreciate that due to the timing, the AUASB's exposure drafts are unable to incorporate these comments, however we would anticipate that the AUASB will ensure that they are in some way involved with the Clarity Project to ensure that the Australian Auditing Standards will not see any further fundamental changes.

### **Small Entities**

William Buck represents a number of small and medium sized enterprises and therefore the applicability of the standards to these organisations is important. The inference in the *Preamble* is that AGS 1048 will be withdrawn as the Auditing Standards will contain any changes for small entities. We have been unable to identify less onerous requirements for small entities in the exposure drafts issued and therefore have concerns that these clients may be subject to significant additional costs in order for their auditors to comply with the additional requirements.

We urge the AUASB to retain AGS 1048, with adjustments as necessary for the additional mandatory requirements in the exposure drafts or include appropriate changes to the individual standards relating to smaller entities.

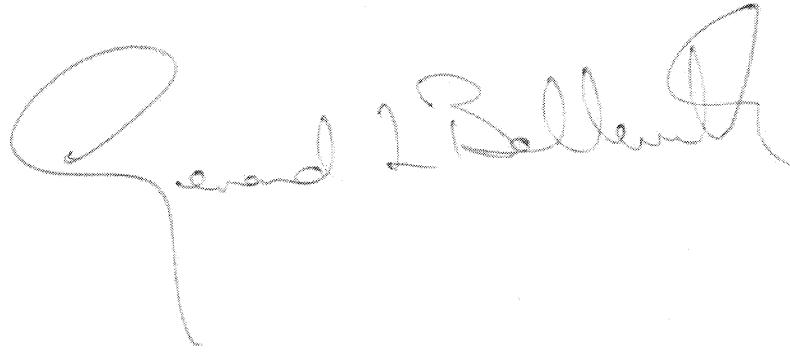
### **Documentation Levels**

Giving auditing standards the force of law means that additional documentation requirements are likely to be needed, we have highlighted in Appendix One specific areas where the level of documentation is uncertain.

For example, is having an overall policy adequate or is the documentation required for each engagement annually?

Please contact Carmen Ridley ([carmen.ridley@williambuckvic.com.au](mailto:carmen.ridley@williambuckvic.com.au)) or myself ([gerard.belleville@williambuckvic.com.au](mailto:gerard.belleville@williambuckvic.com.au)) via email or telephone on 03 8663 6000 if you wish to discuss further any matters arising from this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read "Gerard Belleville". The signature is fluid and cursive, with a large, stylized 'G' at the beginning.

**Gerard Belleville**  
**Director**

William Buck (Vic) Pty Ltd  
ABN 61 973 839 113

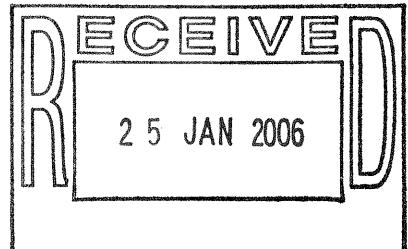
## Appendix One - Specific requirements

Exposure draft	Paragraph Number	Comment
7/05 <i>Proposed Auditing Standards: Preamble to AUASB Standards</i>	-	We believe that since the Australian Auditing Standards are based on the standards issued by the IAASB and these standards are not written to be legally binding, that a paragraph should be included in the preamble stating this fact to enable a judge to understand the context.
	-	The preamble should include clarification regarding the role of the explanatory guidance, i.e. not to expand or limit the scope of the mandatory requirements.
38		This paragraph refers to the codes of conduct of CPA Australia, The Institute of Chartered Accountants in Australia ("ICAA") and the National Institute of Accountants ("NIA"). The majority of auditors are not members of all three accounting bodies, we believe that clarification is required regarding whether, for example, a Chartered Accountant who is not a member of the National Institute of Accountants would be expected to comply with their code of conduct.
39		ED 7/05 and ED 8/05 discuss that only "in rare and exceptional circumstances, factors outside the auditor's control prevent the auditors from complying with a mandatory requirement, ...." This effectively removes the auditors judgement from the audit process and has a particular impact for smaller audits where the controls and processes in place or the size of the client is likely to prevent compliance with some of the mandatory requirements.
8/05 <i>Proposed Auditing Standard: Objective and General Principles Governing An Audit of a Financial Report (Re-issuance of AUS 202)</i>	16	See reference to smaller entity audits discussed above regarding this paragraph in the preamble.  See discussion under paragraph 38 of the preamble.
19		This paragraph states: "the auditor shall not represent compliance with Auditing Standards unless the auditor has complied fully with all of the Auditing Standards relevant to the audit." We believe further clarification is required in respect to auditors obligations for documenting the assessment that a particular Auditing Standard is not relevant to the individual audit engagement.
10/05 <i>Proposed Auditing Standard: Quality Control for Audits of a Financial Report (Re-issuance of AUS 206)</i>	11	This paragraph states that "the engagement partner shall consider whether members of the engagement team have complied with relevant ethical requirements relating to audit engagements." In order to prove compliance with this requirement, certain documentation will be required; consideration should be given to the level of documentation required.

Exposure draft	Paragraph Number	Comment
11/05 Proposed Auditing Standard: <i>Audit Documentation (Re-Issuance of AUS 208)</i>	28	This paragraph requires the extent of the audit work review process to be documented; it is unclear what is expected under this requirement. For example, would it be sufficient if the reviewer signed off each page reviewed or would a separate document listing the areas reviewed be required?
	36	Once the assembly of the audit file is complete, then any new audit documentation to be added shall be accompanied by a memorandum highlighting reasons for the addition etc. It is normal on an audit for certain items such as responses to management letters to be received after the assembly of the audit file, since this is a response to a letter rather than 'audit documentation' is this subject to the requirements?
12/05 Proposed Auditing Standard: <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report (Re-Issuance of AUS 210)</i>	107	The requirements of this paragraph include documentation by the auditors of the identified and assessed risks of material misstatement due to fraud at the financial report level and at the assertion level. The risks may not be identified to this extent on smaller audits and therefore is likely to result in significant additional time and costs for the audit. This is an area where a small entity consideration could be included.
15/05 Proposed Auditing Standard: <i>Planning an Audit of a Financial Report (Re-Issuance of AUS 302)</i>	27	This paragraph refers to the need for documenting the overall audit strategy and audit plan. The strategy and plan are likely to be combined for a smaller audit and normally would not contain significant detail. We consider that this is an area where small entity considerations should be provided.
18/05 Proposed Auditing Standard: <i>Analytical Procedures (Re-Issuance of AUS 512)</i>	-	The theme of this standard is on the need to apply analytical procedures throughout the audit. As previously highlighted in this response letter, it is impractical to perform any type of audit, other than a purely substantive audit on a smaller entity and therefore this standard is another area where special consideration should be given to smaller entities.
19/05 Proposed Auditing Standard: <i>Management Representations (Re-Issuance of AUS 520)</i>	-	We note that the term 'shall endeavour to obtain' has been included in this standard on a number of occasions, we would prefer that the original wording of 'shall obtain' is retained, since it may be difficult to prove how you have endeavoured to obtain this information. The proposed wording is also inconsistent with ISA 580.
20/05 Proposed Auditing Standard: <i>Auditing Fair Value Measurements and Disclosures (Re-Issuance of AUS 526)</i>	-	Many smaller clients preparing special purpose financial reports do not necessarily obtain and maintain information regarding the fair value of their assets. Additional costs will be required if entities are expected to obtain valuations of their fixed assets.
23/05 Proposed Auditing Standard: <i>Going Concern (Re-Issuance of AUS 708)</i>	-	The requirements in this standard may cause significant increase in workload for smaller entities that are not used to undertaking this exercise. We understand that the management assessment is required to be performed for each reporting period, even if there are no going concern indicators.

GB/cr: 051215

14 December 2005



Ms Merran Kelsall  
Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Ms Kelsall

**COMMENTS ON GROUP 3 EXPOSURE DRAFTS OF PROPOSED AUDITING STANDARDS  
ISSUED BY THE AUDITING AND ASSURANCE STANDARDS BOARD**

We write in response to the request for comments contained in the Group 3 exposure drafts issued by the Auditing and Assurance Standards Board.

We have set out our specific comments, where relevant, on the exposure drafts in Appendix One. The general comments made in our Group 2 submission continue to be relevant.

Please contact Carmen Ridley ([carmen.ridley@williambuckvic.com.au](mailto:carmen.ridley@williambuckvic.com.au)) or myself ([gerard.belleville@williambuckvic.com.au](mailto:gerard.belleville@williambuckvic.com.au)) via email or telephone on 03 8663 6000 if you wish to discuss further any matters arising from this submission.

Yours sincerely

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**Gerard Belleville**  
**Director**

William Buck (Vic) Pty Ltd  
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## Appendix One - Specific requirements

Exposure draft	Paragraph Number	Comment
26/05 Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)	-	Many smaller entities do not comply with the related party accounting standard and therefore do not necessarily maintain records regarding transactions with related parties. This is an area which should be addressed in the smaller entities considerations since there is a considerable increase in audit time for this area, if applicable.
	19	One of the tests which this paragraph required is to inquire of other auditors or predecessor auditors; there is no guidance for the length of time which predecessor auditors should be contacted, for example, this may be possible if it is the first year of the audit but not so practical or relevant if the predecessor auditor worked on the client say five years ago.