

15 December 2005

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

Dear Ms Kelsall,

### **Exposure Drafts ED 6/05 to 23/05**

We acknowledge and confirm our support of the group submission made by the Auditing Standards Response Group (“ASRG”) in respect of the above captioned exposure drafts (“EDs”) of proposed Australian Auditing Standards.

This response highlighted a number of critical matters that we believe requires the Auditing and Assurance Standards Board’s (the Board’s) consideration in order for the industry to facilitate an efficient and effective implementation and subsequent application of the revised Auditing Standards.

We have attached our comments in relation to each of the above captioned EDs as Appendices A to R. Our main areas for comments in relation to the EDs are;

- The phrase “pursuant to paragraph X of this Standard the auditor is required to...” is frequently used in the guidance paragraphs. We believe the use of this phrase extends the requirements of the black letter paragraph. We recommend that the Board amend the effected paragraphs by using the ordinarily framework.
- In many paragraphs the Board has amended the phrase used in the equivalent International Standard on Auditing (“ISA”) from “the auditor should” to “the auditor shall endeavour to”. The effect of this is to make the Australian standard less onerous than its equivalent ISA. We understand that the Board may have made this change to assist auditors when clients or other parties do not provide audit evidence when required however, we believe this is addressed by paragraph 39 of ED 7/05 the Preamble. Our recommendation is that the Board should amend the affected paragraphs to align them to the equivalent ISAs.
- In a number of instances the Board has elevated guidance paragraphs in the equivalent ISA to black letter or has inserted additional black letter paragraphs into the ED. This has the effect of making the mandatory requirements of the proposed standards more onerous than their equivalent ISA. Unless there is a compelling public interest reason for including the paragraph as black letter we recommend that the Board either relegate the paragraph or remove it from the final standard completely.

- Many black letter paragraphs contain words and phrases that are highly subjective and are not subsequently defined or clarified in later guidance paragraphs. This could result in an inconsistent interpretation or application of the paragraphs. We recommend that the Board provide additional guidance or definitions to assist auditors in applying the standards.

We would be pleased to discuss our comments with members of the AUASB or its staff. If you wish to do so, please do not hesitate to contact me on 02 9322 7288.

Yours sincerely,

DELOITTE TOUCHE TOHMATSU



Cathlin Mc Cabe

Partner

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**Appendix A – Comments on ED 6/05 – Proposed Forward to AUASB Pronouncements**

Nil

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Appendix B – Comments on ED 7/05 – Proposed Auditing Standard: Preamble to AUASB Standards

Nil

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## Appendix C – Comments on ED 8/05 – Proposed Auditing Standard: Objective and General Principles Governing an Audit of a Financial Report (Re-issuance of AUS 202)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 8</i></p> <p>The auditor shall comply with relevant ethical requirements relating to audit engagements.</p>	<p>Greater guidance should be provided as to what is meant by “relevant ethical requirements”. Footnote 1 to paragraph 9 identifies some codes of conduct being those of CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants but does not make it clear that it is only the body to which the auditor or their firm is a member that needs to be complied with.</p>	<p>We recommend the ED be amended accordingly.</p>
<p><i>Paragraph 16</i></p> <p>Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with a relevant mandatory requirement, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) if possible, perform appropriate alternative procedures; and</li> <li>(b) in accordance with AUS 208, document in the working papers: <ul style="list-style-type: none"> <li>(i) the circumstances surrounding the inability to comply;</li> <li>(ii) the reasons for the inability to comply; and</li> <li>(iii) justification of how alternative procedures achieve the objectives of the mandatory requirement.</li> </ul> </li> </ul> <p>When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor’s report.</p>	<p>This black letter paragraph is not included in the equivalent ISA and is currently guidance within ED7/05.</p>	<p>When an auditor cannot complete a relevant black letter requirement it would be common practice to document the alternative procedures completed to achieve the same objective or to modify the audit report. In order to maintain international harmonisation between this standard and ISA 200 we recommend the Board delete this paragraph or at least only include it as guidance. This will result in this ED being consistent with ED 7/05 paragraph 39.</p> <p>If the paragraph is retained we believe that the Board should provide guidance as to what would amount to “rare and exceptional circumstances”.</p>

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## Appendix C – Comments on ED 8/05 – Proposed Auditing Standard: Objective and General Principles Governing an Audit of a Financial Report (Re-issuance of AUS 202)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 20</i> The auditor shall plan and perform an audit by exercising professional judgement.</p>	<p>This black letter paragraph is not included in the equivalent ISA.</p>	<p>The importance of professional judgement in conducting an audit is included in ED 7/05, the Preamble, at paragraphs 35 and 36. In order to maintain international harmonisation between this ED and ISA 200 we recommend the Board remove this proposed paragraph.</p>
<p><i>Paragraph 24</i> The auditor shall seek to obtain reasonable assurance as to whether the financial report taken as a whole is free from material misstatement, whether due to fraud or error, when conducting an audit in accordance with Auditing Standards.</p>	<p>This black letter paragraph is not included in the equivalent ISA.</p>	<p>In order to maintain international harmonisation between this ED and ISA 200 we recommend the Board remove this proposed paragraph.</p>
<p><i>Paragraph 58</i> When the auditor concludes that the financial reporting framework adopted by management is not acceptable, the auditor shall consider the implications in relation to engagement acceptance and the auditor's report.</p>	<p>This black letter paragraph is not included in the equivalent ISA.</p>	<p>In order to maintain international harmonisation between this ED and ISA 200 we recommend the Board remove this proposed paragraph.</p>

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## Appendix D – Comments on ED 9/05 – Proposed Auditing Standard: Terms of Audit Engagements (Re-issuance of AUS 204)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 5</i></p> <p>The auditor shall agree on the terms of the audit engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the audit engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.</p>	<p>The ISA equivalent to this black letter paragraph does not require the auditor to obtain an engagement letter. It requires an auditor to agree the terms of the engagement. The grey letter of the ISA is consistent with paragraph 6 of this ED.</p>	<p>In order to maintain international harmonisation between this ED and ISA 210 we recommend the Board amend the proposed paragraph to mirror the equivalent paragraph in ISA 210.</p>
<p>Paragraph 0.07(e) of the current standard states “...the auditor does not assume any responsibility for reliance on the audited financial report (or other audited subject matter) if it is used or disseminated other than for the stated purpose for which it was intended (for example, when the audited financial report is released to third parties without the auditors consent)”</p>	<p>This limitation is of particular importance for engagements to audit special purpose financial reports.</p>	<p>Special purpose financial reports are somewhat unique to the Australian financial reporting framework, for this reason the ISA’s do not accommodate auditor’s expressing an opinion on this type of financial report. We recommend that the Board introduce an AUS particularly designed to address the audit and review of a special purpose financial report or amend the current suite of standards to accommodate these types of engagements.</p>
<p><i>Paragraph 13</i></p> <p>When the audit is conducted in accordance with Part 2M.3 of the <i>Corporations Act 2001</i>, the auditor shall include in the written terms of the engagement:</p> <ul style="list-style-type: none"> <li>(a) a statement confirming that the auditor has appropriate processes in place to allow the auditor to meet the independence requirements of the <i>Corporations Act 2001</i>; and</li> <li>(b) a statement confirming that, should the auditor become aware that the auditor has contravened</li> </ul>	<p>The Corporations Act (2001) (‘the Act’) and Professional Standards establish a comprehensive framework in relation to auditor independence upon which an auditor is already liable for breaches. Some breaches under the Act also have defences within that Act. The requirement to include statements in relation to compliance with these independence requirements in an auditor’s engagement letter would expose the auditor to actions for breach of contract in addition to the</p>	<p>We are supportive of the auditor highlighting independence matters and compliance initiatives to their clients in the engagement letter but we are not supportive of additional administrative and reporting requirements being placed on the auditor with no clear public interest resulting, we recommend this paragraph be deleted.</p>

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## Appendix D – Comments on ED 9/05 – Proposed Auditing Standard: Terms of Audit Engagements (Re-issuance of AUS 204)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>the independence requirements of the <i>Corporations Act 2001</i>, the auditor will notify the entity immediately.</p>	<p>penalties already imposed by the Act and Professional Standards. In addition, the proposed requirements may be in conflict with, or additional to, the requirements of the Act, for example, the proposed requirement to report breaches immediately.</p> <p>Further, the exposure draft provides no guidance against which to measure whether the auditor's processes are "appropriate" or not. It is likely that all auditors and audit firms will have a variety of different processes in place to achieve compliance with the Act. We submit that the phrase is too vague for a "black-letter" mandatory requirement.</p>	
<p><i>Paragraph 13 continued</i> <i>Paragraph 30</i> Where the terms of the engagement are changed the auditor shall agree on the new terms with the entity and confirm them in writing.</p>	<p>The second phrase in this black letter paragraph is not included in the equivalent ISA.</p>	<p>In order to maintain international harmonisation between this ED and ISA 210 we recommend the Board amend this paragraph to align completely with ISA 210.</p>
<p><i>Paragraph 33</i> If the auditor is unable to agree to a change in the terms of the engagement and is not permitted to continue the original engagement, the auditor shall withdraw from the engagement and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as those charged with governance or shareholders, the circumstances necessitating the withdrawal.</p>	<p>These paragraphs are in agreement to ISA 210. The Act places limitations on changes to auditors of public companies which are not addressed here.</p>	<p>We recommend the Board insert Australian specific guidance relating to the withdrawal of an auditor from an audit of a public company.</p>



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## Appendix E– Comments on ED 10/05 – Proposed Auditing Standard: Quality Control for audits of a Financial Report (Re-issuance of AUS 206)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 5</i> The engagement team shall implement quality control procedures that are applicable to the individual audit engagement.</p>	<p>It is unclear from this paragraph or the guidance that follows what is meant by “quality control procedures”.</p>	<p>We recommend that the Board provide a definition for “quality control procedures” or provide guidance as to what it means.</p>
<p><i>Paragraph 8</i></p>	<p>ISA 220 contains a definition of Staff, this ED does not.</p>	<p>In order to maintain international harmonisation between this ED and ISA 220 we recommend the Board include this definition within the ED.</p>
<p><i>Paragraph 11</i> The engagement partner shall consider whether members of the engagement team have complied with relevant ethical requirements relating to audit engagements.</p>	<p>The last phrase in this paragraph is not included in ISA 220.</p>	<p>In order to maintain international harmonisation between this ED and ISA 220 we recommend the Board amend this paragraph to align completely with ISA 220.</p>
<p><i>Paragraph 22</i> Where the engagement partner obtains information that would have caused the firm to decline the audit engagement if that information had been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.</p>	<p>The word “promptly” is judgemental and could result in differences of interpretation by different practitioners, similarly “necessary action”.</p>	<p>To prevent differences of interpretation by auditors we recommend the Board amend the ED to include guidance as to what is meant by “promptly” and “necessary action”.</p>
<p><i>Paragraph 30 and 31</i> Before the auditor’s report is issued, the engagement partner, through review of the audit documentation and discussion with the engagement team, shall be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the</p>	<p>The last sentence of paragraph 31 creates an extension of the mandatory requirement in paragraph 30. Paragraph 30 does not directly require the auditor to resolve issues arising from the reviews. By linking the two paragraphs in this manner the AUASB broadens the requirements of</p>	<p>The sentence should be amended as follows, <del>“Pursuant to paragraph 30</del> <u>Ordinarily</u> issues arising from the reviews are required to be resolved to the satisfaction of the engagement partner”.</p>

## Appendix E– Comments on ED 10/05 – Proposed Auditing Standard: Quality Control for audits of a Financial Report (Re-issuance of AUS 206)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>auditor's report to be issued.</p> <p>Ordinarily the engagement partner conducts timely reviews at appropriate stages during the engagement. This allows significant matters to be resolved on a timely basis to the engagement partner's satisfaction before the auditor's report is issued. Ordinarily the reviews cover critical areas of judgement, especially those relating to difficult or contentious matters identified during the course of the engagement, significant risks, and other areas the engagement partner considers important. The engagement partner need not review all audit documentation. However, the partner ordinarily documents the extent and timing of the reviews. Pursuant to paragraph 30 of this Auditing Standard issues arising from the reviews are required to be resolved to the satisfaction of the engagement partner.</p>	<p>paragraph 30.</p>	
<p><i>Paragraph 40</i></p> <p>For audits of a financial report of listed entities, the engagement partner shall:</p> <p>(a) determine that an engagement quality control reviewer has been appointed;</p> <p>(b) discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and</p>	<p>The last sentence of this paragraph is included in ISA 220 as guidance only.</p>	<p>In order to maintain international harmonisation between this ED and ISA 220 we recommend the Board demote this sentence to grey letter to align with ISA 220.</p>



Appendix E- Comments on ED 10/05 – Proposed Auditing Standard: Quality Control for audits of a Financial Report (Re-issuance of AUS 206)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>(c) not issue the auditor's report until the completion of the engagement quality control review.</p> <p>For other audit engagements where an engagement quality control review is performed, the engagement partner shall follow the requirements set out in subparagraphs (a) to (c).</p>		

## Appendix F – Comments on ED 11/05 – Proposed Auditing Standard: Audit Documentation (Re-issuance of AUS 208)

Paragraph/s	Comments	Recommendation/s
<p><i>Paragraph 5</i> The auditor shall prepare, on a timely basis, audit documentation that provides:</p> <p>(a) a sufficient and appropriate record of the basis for the auditor’s report; and</p> <p>(b) evidence that the audit was performed in accordance with Auditing Standards and applicable legal and regulatory requirements.</p>	<p>ISA 230 does not include the phrase “on a timely basis”.</p> <p>Furthermore the phrase is very subjective.</p>	<p>In order to maintain international harmonisation between this ED and ISA 230 we recommend the Board remove the phrase “on a timely basis”.</p> <p>If the phrase is retained it should be clearly defined.</p>
<p><i>Paragraph 9</i> In this Auditing Standard:</p> <p>(a) “Audit documentation” means the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).</p> <p>(b) “Experienced auditor” means an individual (whether internal or external to the firm) who has a reasonable understanding of (i) audit processes, (ii) Auditing Standards and applicable legal and regulatory requirements, (iii) the business environment in which the entity operates, and (iv) auditing and financial reporting issues relevant to the entity’s industry.</p>	<p>The definition of an “experienced auditor” contains the phrase “reasonable understanding”; this is a very subjective phrase.</p> <p>This definition is likely to become more important over time as auditors are subjected to increased external review by “experienced auditors”.</p> <p>Other terms are used within this ED that if a definition or guidance as to meaning was to be provided would assist in the consistent application of the standard, for example “significant matters” paragraph 12, 19, “retention period” paragraph 33 and “exceptional circumstances” paragraph 37.</p>	<p>Further guidance should be provided in relation to these terms and concepts.</p>
<p><i>Paragraph 19</i> The auditor shall document discussions of significant matters with those charged with governance, management and others on a timely</p>	<p>ISA 230 only requires you to <b>discuss</b> significant matters with those charged with governance etc; this ED requires <b>documentation</b> of those</p>	<p>Whilst an auditor would ordinarily document these discussions, in order to maintain international harmonisation between this ED and ISA 230 we</p>

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## Appendix F – Comments on ED 11/05 – Proposed Auditing Standard: Audit Documentation (Re-issuance of AUS 208)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 20</i></p> <p>Pursuant to paragraph 19 of this Auditing Standard, audit documentation includes records of the significant matters discussed, and when and with whom the discussions took place. It is not limited to records prepared by the auditor but may include other appropriate records such as agreed minutes of meetings prepared by the entity's personnel. Others with whom the auditor may discuss significant matters include other personnel within the entity and external parties, such as persons providing professional advice to the entity.</p>	<p>discussions.</p> <p>The last sentence of paragraph 20 creates an extension of the mandatory requirement in paragraph 19. Paragraph 20 does not directly require the auditor to include when, and with whom, the discussions took place, only to document the discussions. By linking the two paragraphs in this manner the AUASB broadens the requirements of paragraph 19.</p>	<p>recommend the Board amend this paragraph to align completely with ISA 230.</p> <p>We recommend that the sentence should be amended as follows, "<del>Pursuant to paragraph 19</del> Ordinarily audit documentation includes records...."</p>
<p><i>Paragraph 25</i></p> <p>Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with a relevant mandatory requirement, the auditor shall document:</p> <ul style="list-style-type: none"> <li>(a) the circumstances surrounding the inability to comply;</li> <li>(b) the reasons for the inability to comply; and</li> <li>(c) justification of how alternative procedures achieve the objectives of the mandatory requirement. </li></ul>	<p>Refer to our comments on paragraph 16 of ED 8/05</p>	<p>We recommend the Board adopt a consistent approach throughout the suite of standards and that this requirement only be included as black letter on one occasion.</p>
<p><i>Paragraph 30 and 31</i></p> <p>The auditor shall complete the assembly of the final audit file on a timely basis after the date of the auditor's report.</p>	<p>Paragraph 31 extends the mandatory requirement in paragraph 30 by saying "ordinarily 60 days after the date..." At the very least this creates a</p>	<p>We recommend the Board insert a definition for "timely basis" in the ED or include a time limit for the completion of files directly into paragraph</p>

## Appendix F – Comments on ED 11/05 – Proposed Auditing Standard: Audit Documentation (Re-issuance of AUS 208)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>Under quality control requirements for firms issued by a professional accounting body, firms are obliged to establish policies and procedures for the timely completion of the assembly of audit files. Ordinarily, 60 days after the date of the auditor's report is an appropriate time limit within which to complete the assembly of the final audit file.</p>	<p>rebuttable presumption that the file shall be completed within 60 days. These standards are legal instruments and should stand alone without reference to another body's policies and requirements.</p> <p>This requirement is greater than those in the equivalent ISA which at present are silent on this matter.</p>	<p>30.</p>
<p><i>Paragraphs 39 and 40</i></p> <p>The auditor shall adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation.</p> <p>Under quality control requirements for firms issued by a professional accounting body, firms are required to establish policies and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation. Pursuant to AUS 206, the auditor is entitled to rely on the firm's systems.</p>	<p>There is no similar requirement within ISA 230.</p> <p>Section 307B(1) of the Corporations Act (2001) requires an auditor to retain audit work papers for a period of seven years from the date of the audit report. In retaining them the requirements of this paragraph would also indirectly be met.</p>	<p>An auditor has an indirect requirement to do these things pursuant to other standards and paragraphs, for example paragraph 33 of this ED prohibits an auditor deleting or discarding documentation before the end of the retention period, therefore an auditor would ordinarily safeguard audit documentation. In order to maintain international harmonisation between this standard and ISA 230 we recommend the AU/ASB remove these paragraphs to align with ISA 230.</p>



**Appendix G – Comments on ED 12/05 – Proposed Auditing Standard: The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)**

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 41, 42 and 43</i></p> <p>When making inquiries as part of obtaining an understanding of management’s process for identifying and responding to the risks of fraud in the entity, pursuant to paragraph 42 of this Auditing Standard the auditor is required to inquire about the process to respond to internal or external allegations of fraud affecting the entity. For entities with multiple locations, the auditor inquires about the nature and extent of monitoring of operating locations or business segments and whether there are particular operating locations or business segments for which a risk of fraud may be more likely to exist.</p> <p>The auditor shall make inquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>Although the auditor’s inquiries of management may provide useful information concerning the risks of material misstatements in the financial report resulting from employee fraud, such inquiries are unlikely to provide useful information regarding the risks of material misstatement in the financial report resulting from management fraud. Making inquiries of others within the entity, in addition to management, may be useful in providing the auditor with a</p>	<p>Paragraphs 41 and 43 extend the mandatory requirement in paragraph 42.</p>	<p>We recommend the Board amend this paragraph by inserting the phrase “ordinarily” into paragraphs 41 and 43.</p>

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## Appendix G – Comments on ED 12/05 – Proposed Auditing Standard: The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>perspective that is different from management and those responsible for the financial reporting process. Such inquiries may provide individuals with an opportunity to convey information to the auditor that may not otherwise be communicated. The auditor uses professional judgement in determining those others within the entity to whom inquiries are directed and the extent of such inquiries. In making this determination pursuant to paragraph 42 of this Auditing Standard the auditor is required to consider whether others within the entity may be able to provide information that will be helpful to the auditor in identifying the risks of material misstatement due to fraud.</p>		
<p><i>Paragraph 47</i> The auditor shall obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p>	<p>The phrase “an understanding” is judgemental. This could be interpreted differently by auditors.</p>	<p>To prevent this and enhance consistent application of this paragraph we recommend the Board provide a definition for the term or provide guidance as to how it should be interpreted.</p>
<p><i>Paragraphs 70 and 72</i> In determining overall responses to address the risks of material misstatement due to fraud at the financial report level the auditor shall: (a) consider the assignment and supervision of personnel;(b) consider the accounting policies used by the entity; and (c) incorporate an element of unpredictability</p>	<p>Paragraph 71 extends the mandatory requirement in paragraph 70.</p>	<p>We recommend the Board amend this paragraph by inserting the phrase “ordinarily” into paragraph 71.</p>



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## Appendix G – Comments on ED 12/05 – Proposed Auditing Standard: The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>in the selection of the nature, timing and extent of audit procedures.</p> <p>Pursuant to paragraph 70 of this Auditing Standard the auditor is required to consider management’s selection and application of significant accounting policies, particularly those related to subjective measurements and complex transactions. Ordinarily the auditor considers whether the selection and application of accounting policies may be indicative of fraudulent financial reporting resulting from management’s effort to manage earnings in order to deceive financial report users by influencing their perceptions as to the entity’s performance and profitability.</p>		
<p><i>Paragraph 96</i></p> <p>The auditor shall endeavour to obtain written representations from management that:</p> <p>(a) it acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud;</p> <p>(b) it has disclosed to the auditor the results of its assessment of the risk that the financial report may be materially misstated as a result of fraud;</p> <p>(c) it has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:</p> <p>(i) management;</p>	<p>This paragraph varies from ISA 240. ISA 240 says “the auditor should obtain”. Because of this, the proposed ED is therefore less onerous than the equivalent ISA.</p> <p>Many auditors are members of professional bodies which are also members of IFAC. As members of IFAC those professional organisations are obliged to ensure that their standards are at the very least as robust as the IFAC standards.</p> <p>The ED does not indicate what amounts to “endeavour” or what an auditor should do if</p>	<p>To make the requirements clearer and to enhance harmonisation with ISA 240 we recommend that the Board amend this paragraph to mirror ISA 240 as follows,</p> <p>“The auditor should obtain ...”</p>

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## Appendix G – Comments on ED 12/05 – Proposed Auditing Standard: The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)

Paragraph/s	Comments	Recommendation/s
<p>(ii) employees who have significant roles in internal control; or</p> <p>(iii) others where the fraud could have a material effect on the financial report; and</p> <p>(d) it has disclosed to the auditor its knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial report communicated by employees, former employees, analysts, regulators or others.</p>	<p>despite the auditor’s endeavours the client refuses to provide a representation.</p> <p>Providing a management representation of this nature is within the control of the client’s management.</p>	
<p><i>Paragraphs 101 and 102</i></p> <p>If the auditor has identified fraud involving:</p> <p>(a) management;</p> <p>(b) employees who have significant roles in internal control; or</p> <p>(c) others where the fraud results in a material misstatement in the financial report, the auditor shall communicate these matters to those charged with governance as soon as practicable.</p> <p>The auditor’s communication with those charged with governance may be made orally or in writing. AUS 710 identifies factors the auditor ordinarily considers in determining whether to communicate orally or in writing. Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the financial report, pursuant to paragraph 101 of</p>	<p>Paragraph 102 extends the mandatory requirement in paragraph 101</p>	<p>We recommend the Board amend this paragraph by inserting the phrase “ordinarily” into paragraph 102.</p>

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## Appendix G – Comments on ED 12/05 – Proposed Auditing Standard: The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>this Auditing Standard the auditor is required to report such matters as soon as practicable and consider whether it is necessary to also report such matters in writing. If the auditor suspects fraud involving management, pursuant to paragraph 101 of this Auditing Standard the auditor is required to communicate these suspicions to those charged with governance and also discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.</p>		
<p><i>Paragraph 105 and 110</i> The auditor shall make those charged with governance and management aware, as soon as practicable, and at the appropriate level of responsibility, of material weaknesses in the design or implementation of internal control to prevent and detect fraud which may have come to the auditor’s attention.</p> <p>If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor’s ability to continue performing the audit the auditor shall....</p>	<p>The phrases “as soon as practicable” and “appropriate level of responsibility” and “exceptional circumstances” are judgemental. They could be interpreted differently by auditors.</p>	<p>To prevent this and enhance consistent application of this paragraph we recommend the Board provide a definition for the terms or provide guidance as to how they should be interpreted.</p>

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## Appendix H – Comments on ED 13/05 – Proposed Auditing Standard: Other Information in Documents Containing Audited Financial Information (Re-issuance of AUS 212)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 20 and 26</i></p> <p>If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management.</p> <p>If on reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, pursuant to paragraph 14 and 20 of this Auditing Standard, the auditor would determine whether the audited financial report or the other information need revision.</p>	<p>Paragraph 26 extends the mandatory requirement in paragraph 20. Paragraph 20 only requires the auditor to discuss material misstatements of fact with the entity's management.</p>	<p>We recommend the Board amend the sentence in paragraph 26 to delete the reference to paragraph 20.</p>
<p><i>Paragraphs 18 – 24</i></p> <p>While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent <b>misstatement of fact</b>.</p> <p>For the purpose of this Auditing Standard, a “<b>material misstatement of fact</b>” in other information exists when such information, not related to matters appearing in the audited financial report, is incorrectly stated or presented.</p> <p>If the auditor becomes aware that the other information appears to include a <b>material misstatement of fact</b>, the auditor shall discuss the matter with the entity's management.</p>	<p>Paragraphs 18 to 24 collectively refer to “material misstatements of fact” however paragraphs 18 and 22 omit the word material from the phrase.</p>	<p>We recommend that the Board amend paragraphs 18 and 22 by inserting the word material as follows,</p> <p>While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent <u>material</u> misstatement of fact.</p> <p>When the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and shall consider the advice received.</p>

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## Appendix H – Comments on ED 13/05 – Proposed Auditing Standard: Other Information in Documents Containing Audited Financial Information (Re-issuance of AUS 212)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>When discussing the matter with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and would ordinarily need to consider whether valid differences of judgement or opinion exist.</p> <p>When the auditor still considers that there is an apparent <b>misstatement of fact</b>, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and shall consider the advice received.</p> <p>If the auditor concludes that there is a <b>material misstatement of fact</b> in the other information which management refuses to correct, the auditor shall consider taking further appropriate action.</p> <p>The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.</p>		
<p><i>Paragraphs 23 and 29</i></p> <p>If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall <i>consider taking further appropriate action</i>.</p>	<p>We do not believe the phrase "the auditor shall consider taking further appropriate action" is sufficiently clear for black letter paragraphs in a legally enforceable auditing standard.</p>	<p>Whilst an auditor would ordinarily take some action in these circumstance we recommend that the Board make the paragraphs more clearly actionable statements by substituting the phrase used with the following one, "the auditor shall</p>

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## Appendix H – Comments on ED 13/05 – Proposed Auditing Standard: Other Information in Documents Containing Audited Financial Information (Re-issuance of AUS 212)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
When revision to the other information is necessary but management refuses to make the revision, the auditor <i>shall consider taking further appropriate action.</i>	Strictly interpreted this only requires an auditor to consider what action to take and do nothing further.	consider what appropriate further action should be taken”.

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## Appendix I – Comments on ED 14/05 – Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a financial Report (Re-issuance of AUS 218)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 38 and 39</i></p> <p>The auditor shall consider the implications of non-compliance in relation to other aspects of the audit, particularly the reliability of management representations.</p> <p>In this regard, pursuant to paragraph 38 of this Auditing Standard, the auditor is required to reconsider the risk assessment and the validity of management representations, in case of non-compliance not detected by the entity's internal controls or not included in management representations. The implications of particular instances of non-compliance discovered by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved.</p>	<p>Paragraph 39 extends the mandatory requirement in paragraph 38. Paragraph 39 only requires the auditor to consider the implications of non-compliance in relation to other aspects of the audit, particularly the reliability of management representations.</p>	<p>We recommend that the Board amend paragraph 39 as follows,</p> <p><del>In this regard, pursuant to paragraph 38 of this Auditing Standard, the auditor is required to reconsider the risk assessment and the validity of management representations, in case of</del> When non-compliance <u>is</u> not detected by the entity's internal controls or not included in management representations the auditor is ordinarily required to reconsider the risk assessment and the validity of management representations.</p>
<p><i>Paragraph 29</i></p> <p>The auditor shall endeavour to obtain written representations that management has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects shall be considered when preparing the financial report.</p>	<p>This paragraph varies from ISA 250. ISA 250 says "the auditor should obtain". Because of this the ED is actually less onerous than the equivalent ISA.</p> <p>Many auditors are members of professional bodies which are also members of IFAC. As members of IFAC those professional organisations are obliged to ensure that their standards are at the very least as robust as the IFAC standards.</p>	<p>To make the requirements clearer and to enhance harmonisation with ISA 250 we recommend that the Board amend this paragraph to mirror ISA 250 as follows,</p> <p>"The auditor should obtain written representations ..."</p>

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## Appendix I – Comments on ED 14/05 – Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a financial Report (Re-issuance of AUS 218)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 40</i></p> <p>The auditor shall, as soon as practicable, either communicate with those charged with governance and management, or obtain audit evidence that they are appropriately informed, regarding non-compliance that comes to the auditor’s attention.</p>	<p>The ED does not indicate what amounts to “endeavour” or what an auditor should do if despite the auditor’s endeavours the client refuses to provide a representation.</p> <p>This paragraph varies from ISA 250. ISA 250 requires the auditor to discuss these matters with those charged with governance. Because of this variance the proposed ED is therefore actually more onerous than the equivalent ISA.</p>	<p>To enhance harmonisation with ISA 250 we recommend that the Board amend this paragraph to mirror ISA 250 by deleting the words “and management”.</p>
<p><i>Paragraph 42</i></p> <p>If in the auditor’s judgement the non-compliance is believed to be intentional and material, the auditor shall communicate the finding without delay.</p>	<p>The phrase “without delay” is judgemental. This could be interpreted differently by auditors.</p>	<p>To prevent this and enhance consistent application of this paragraph we recommend the Board provide a definition for the term or provide guidance as to how it should be interpreted.</p>
<p><i>Paragraph 43</i></p> <p>If the auditor suspects management is involved in non-compliance, the auditor shall report the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or those charged with governance.</p>	<p>This paragraph varies from ISA 250. ISA 250 refers to “members of senior management, including the board of directors” whilst the ED only refers to management. Because of this, and depending on how the auditor interprets the word “management”, the proposed ED could have either less or more application than the equivalent ISA.</p> <p>ISA 250 uses the phrase supervisory board whilst the ED uses the phrase “those charged with</p>	<p>To enhance harmonisation with ISA 250 we recommend that the Board amend this paragraph to mirror ISA 250 by substituting management with the phrase “members of senior management, including the board of directors”.</p> <p>Whilst this is likely to represent the same group of people, in the interests of harmonisation we</p>



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## Appendix 1 – Comments on ED 14/05 – Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a financial Report (Re-issuance of AUS 218)

Paragraph/s	Comments	Recommendation/s
<p><i>Paragraphs 51 and 23 and 24</i></p> <p>After obtaining the general understanding, the auditor shall perform further audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance ought to have been considered when preparing the financial report, specifically:</p> <ul style="list-style-type: none"> <li>(a) inquiring of management as to whether the entity is in compliance with such laws and regulations; and</li> <li>(b) Inspecting correspondence with the relevant licensing or regulatory authorities.</li> </ul> <p>Further, the auditor shall obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognised by the auditor to have an effect on the determination of material amounts and disclosures in the financial report. The auditor shall have a sufficient understanding of these laws and regulations in order to consider them when auditing the assertions related to the determination of the amounts to be recorded and the disclosures to be made. Prior to reporting any non-compliance to a third party, the auditor, pursuant to paragraphs 23 and 24 of this Auditing Standard, is required to</p>	<p>governance”.</p> <p>Paragraph 51 extends the mandatory requirements in paragraphs 23 and 24 by requiring the auditor to perform sufficient modified or additional audit procedures to verify the accuracy of the facts which are to be disclosed. Paragraphs 23 and 24 do not require the auditor to do this.</p>	<p>recommend that the Board provide a definition for the term to indicate that the two terms have the same meaning, alternatively the Board could use the phrase adopted in ISA 250.</p> <p>In these circumstances the auditor would ordinarily undertake such procedures in order to avoid extending the mandatory requirements of the ED we recommend the Board amend paragraph 51 as follows – “Prior to reporting any non-compliance to a third party, the auditor will <u>ordinarily, pursuant to paragraphs 23 and 24 of this Auditing Standard, is required to perform sufficient modified or additional audit procedures...</u>”</p>

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## Appendix I – Comments on ED 14/05 – Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a financial Report (Re-issuance of AUS 218)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
perform sufficient modified or additional audit procedures to verify the accuracy of the facts which are to be disclosed.		

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 9 and 10</i></p> <p>The auditor shall perform the following activities at the beginning of the current audit engagement:</p> <ul style="list-style-type: none"> <li>• perform procedures regarding the continuance of the client relationship and the specific audit engagement;</li> <li>• evaluate compliance with relevant ethical requirements relating to the audit engagement, including independence; and</li> <li>• Establish an understanding of the terms of the engagement.</li> </ul> <p>The auditor’s consideration of client continuance and relevant ethical requirements relating to the audit engagement, including independence occurs throughout the performance of the audit engagement as conditions and changes in circumstances occur. However, pursuant to paragraph 9 of this Auditing Standard, the auditor’s initial procedures on both client continuance and evaluation of compliance with relevant ethical requirements relating to the audit engagement (including independence) are required to be performed prior to performing other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.</p>	<p>Paragraph 10 gives guidance on what is meant in paragraph 9 by “beginning of the current audit engagement”.</p> <p>It indicates the beginning of the current audit engagement is “prior to performing other significant activities for the current audit engagement”. There is however no guidance as to what “prior to performing other significant activities for the current audit engagement” is intended to mean.</p>	<p>To assist in consistent application of the standard we recommend that the AUSAB provide guidance on what is meant by “prior to performing other significant activities for the current audit engagement”.</p>

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## Appendix J – Comments on ED 15/05 – Proposed Auditing Standard: Planning o an Audit of a Financial Report (Re-issuance of AUS 302)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 12 and 13</i> The auditor shall establish the overall audit strategy for the audit.</p> <p>In developing the audit strategy, pursuant to paragraph 12 of this Auditing Standard, the auditor is required to consider the results of preliminary engagement activities and, where practicable, experience gained on other engagements performed for the entity. Appendix 1 lists examples of matters the auditor may consider in establishing the overall audit strategy for an engagement.</p>	<p>Paragraph 13 extends the mandatory requirement in paragraphs 12 by requiring the auditor “to consider the results of preliminary engagement activities and, where practicable, experience gained on other engagements performed for the entity”. Paragraph 12 requires an auditor to establish the overall audit strategy.</p>	<p>In these circumstances the auditor would ordinarily undertake such procedures, in order to avoid extending the mandatory requirements of the ED we recommend the Board amend paragraph 13 as follows – “In developing the audit strategy, pursuant to paragraph 12 of this Auditing Standard, the auditor ordinarily is required to consider the results of preliminary engagement activities and, where practicable, experience...”</p>
<p><i>Paragraph 19</i> The audit plan is more detailed than the audit strategy and includes the re, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Documentation of the audit plan also serves as a record of the proper planning and performance of the audit procedures that can be reviewed and approved prior to the performance of further audit procedures.</p>	<p>The word nature in the 2<sup>nd</sup> line of the ED has been cut off.</p>	<p>The typing error should be corrected.</p>
<p><i>Paragraph 27 and 28</i> The auditor shall document the overall audit strategy and the audit plan, including any</p>	<p>Paragraph 28 extends the mandatory requirement in paragraph 27 by requiring the auditor to</p>	<p>Whilst the auditor would ordinarily document the matters described in paragraph 27, in order to</p>

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## Appendix J – Comments on ED 15/05 – Proposed Auditing Standard: Planning o an Audit of a Financial Report (Re-issuance of AUS 302)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>significant changes made during the audit engagement.</p> <p>Pursuant to paragraph 27, the auditor is required to document:</p> <p>(a) the overall audit strategy, which records the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit;</p> <p>(b) the audit plan in sufficient detail to demonstrate the planned nature, timing and extent of risk assessment procedures, and further audit procedures at the assertion level for each material class of transaction, account balance, and disclosure in response to the assessed risks. The auditor may use standard audit programs or audit completion checklists. However, when such standard programs or checklists are used, the auditor appropriately tailors them to reflect the particular engagement circumstances; and</p> <p>(c) any significant changes to the originally planned overall audit strategy and to the detailed audit plan, including the reasons for the significant changes and the auditor’s response to the events, conditions, or results of</p>	<p>document specific matters as part of the overall audit strategy.</p>	<p>avoid extending the mandatory requirements of the ED we recommend the Board amend paragraph 27 as follows – <del>“Pursuant to paragraph 27, the auditor is required to document: The documentation of the overall audit plan will ordinarily include:</del></p>

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## Appendix J – Comments on ED 15/05 – Proposed Auditing Standard: Planning o an Audit of a Financial Report (Re-issuance of AUS 302)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>audit procedures that resulted in such changes. For example, the auditor may significantly change the planned overall audit strategy and the audit plan as a result of a material business combination or the identification of a material misstatement of the financial report. A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains the overall strategy and audit plan finally adopted for the audit and demonstrates the appropriate response to significant changes occurring during the audit.</p>		



**Appendix K – Comments on ED 16/05 – Proposed Auditing Standard: Audit Considerations Relating to Entities Using Service Organisations (Re-issuance of AUS 404)**

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<i>Paragraph 17</i> If the auditor uses the report of a service organisation auditor, the auditor shall consider the professional competence of that auditor in the context of the specific assignment undertaken by the service organisation auditor.	This paragraph varies to ISA 402 which says “the auditor shall consider enquiries concerning the professional competence...”	To enhance harmonisation with ISA 402 we recommend that the Board amend this paragraph to mirror ISA 402 by inserting the phrase “consider making enquiries” as follows “the auditor shall <u>consider making enquiries</u> concerning the professional competence...”.

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## Appendix L – Comments on ED 17/05 – Proposed Auditing Standard: Initial Engagements – Opening Balances (Re-issuance of AUS 510)

Paragraph/s	Comments	Recommendation/s
<p><i>Paragraphs 5 and 8</i></p> <p>For initial audit engagements, the auditor shall obtain sufficient appropriate audit evidence that:</p> <ul style="list-style-type: none"> <li>(a) the opening balances do not contain misstatements that materially affect the current period's financial report;</li> <li>(b) the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and</li> <li>(c) appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.</li> </ul> <p>Pursuant to paragraph 5 of this Auditing Standard, the auditor is required to consider whether:</p> <ul style="list-style-type: none"> <li>• Opening balances reflect the application of appropriate accounting policies and that those policies are consistently applied in the current period's financial report.</li> <li>• Accounting policies are appropriate and properly accounted for and adequately presented and disclosed, when there are any changes in the accounting policies or application thereof.</li> </ul>	<p>Paragraph 8 extends the mandatory requirement in paragraph 5 by specifying additional matters the auditor should address when considering opening balances.</p>	<p>Whilst the auditor would ordinarily consider the matters described in paragraph 8, in order to avoid extending the mandatory requirements of the ED we recommend the Board amend paragraph 8 as follows – <u>“When conducting initial audit engagements, the auditor will ordinarily Pursuant to paragraph 5 of this Auditing Standard, the auditor is required to consider whether”</u></p>
<p><i>Appendix 1 - opinion paragraph</i></p> <p>In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventory and satisfy ourselves as to the opening balance of</p>	<p>The equivalent paragraph in ISA 510 refers to “the results of its operations” rather than its “financial performance”.</p>	<p>To enhance harmonisation with ISA 510 we recommend that the Board amend this paragraph to mirror ISA 510 by replacing “financial performance” with “the results of its operations”.</p>



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## Appendix L – Comments on ED 17/05 – Proposed Auditing Standard: Initial Engagements – Opening Balances (Re-issuance of AUS 510)

Paragraph/s	Comments	Recommendation/s
<p>inventory, the financial report presents fairly, in all material respects, (or “gives a true and fair view of”) the financial position of [name of entity] as of 30 June 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards in Australia (and, when appropriate, statutory and other requirements).</p> <p><i>Appendix 2</i></p> <p><i>Independence paragraph</i></p> <p>In conducting our audit, we have complied with the independence requirements of the <i>Corporations Act 2001</i>. We confirm that the independence declaration required by the <i>Corporations Act 2001</i>, provided to the directors of [name of company/registered scheme/disclosing entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor’s report.</p> <p><i>Opinion paragraph</i></p> <p>In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventory and satisfy ourselves as to the opening balance of inventory, the financial report of [name of company/registered scheme/disclosing entity] is in accordance with the <i>Corporations Act 2001</i>, including:</p>		
<p>giving a true and fair view of the</p>	<p>The Act requires auditors to make an independence declaration – inserting this requirement into the audit report is duplication and reduces the international comparability of audit opinions.</p> <p>In practice the second part of this statement is only included in the audit report when the audit report and the independence declarations are not signed on the same date.</p> <p>This opinion paragraph is inconsistent with ISA 510 in two ways (i) it refers to the entity’s performance whilst ISA 510 refers to “the results of operations and its cash flows” and (ii) it refers to the “year ended on that date” and ISA 510 refers to “the year then ended”.</p>	<p>We recommend that the Board removes the first sentence and that notes are included in relation to the usage of the second sentence.</p> <p>We recommend that the Board amend the ED to align it completely with ISA 510.</p>



Appendix L – Comments on ED 17/05 – Proposed Auditing Standard: Initial Engagements – Opening Balances (Re-issuance of AUS 510)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
[company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and complying with Accounting Standards in Australia and the <i>Corporations Regulations 2001</i> .		

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## Appendix M – Comments on ED 18/05 – Proposed Auditing Standard: Analytical Procedures (Re-issuance of AUS 512)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 25 and 27</i></p> <p>The auditor shall apply analytical procedures at or near the end of the audit when forming a conclusion as to whether the financial report as a whole is consistent with the auditor's understanding of the entity.</p> <p>When analytical procedures identify significant fluctuations or relationships that: (a) are inconsistent with other relevant information; or (b) deviate from predicted amounts, the auditor shall investigate and obtain adequate explanations and appropriate corroborative audit evidence.</p>	<p>The following terms used in these paragraphs could be interpreted differently by practitioners – “is consistent with”, “significant fluctuations”, “inconsistent with”, “deviate”, “adequate explanations” and “appropriate corroborative evidence”.</p>	<p>To improve the consistent application of the ED we recommend that either definitions or guidance be included to assist in the application of these paragraphs.</p>
<p><i>Appendix to Current AUS 512.</i></p> <p>This appendix contains examples of analytical procedures that can be used at various stages of an audit.</p>	<p>This appendix is useful for practitioners to understand different types of analytical procedures available and also to aid in the consistent application of commonly used ratios.</p>	<p>We recommend this appendix be included in the ED.</p>

## Appendix N – Comments on ED 19/05 – Proposed Auditing Standard: Management Representations (Re-issuance of AUS 520)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 5, 9 and 12</i></p> <p>The auditor shall endeavour to obtain appropriate representations from management.</p> <p>The auditor shall endeavour to obtain written representations from management on matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.</p> <p>The auditor shall endeavour to obtain written representations from management that:</p> <p>(a) it acknowledges its responsibility for the design and implementation of internal control to prevent and detect error; and</p> <p>(b) it believes the effects of those uncorrected financial report misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of such items shall be included in or attached to the written representations.</p>	<p>This paragraph varies from ISA 580. ISA 580 says “the auditor should obtain”. Because of this, the proposed ED is therefore less onerous than the equivalent ISA.</p> <p>Many auditors are members of professional bodies which are also members of IFAC. As members of IFAC those professional organisations are obliged to ensure that their standards are at the very least as robust as the IFAC standards.</p> <p>The ED does not indicate what amounts to “endeavour” or what an auditor should do if despite the auditor’s endeavours the client refuses to provide a representation. Furthermore a representation such as this is within management’s control to provide.</p>	<p>To make the requirements clearer and to enhance harmonisation with ISA 580 we recommend that the Board amend this paragraph to mirror ISA 580 as follows,</p> <p>“The auditor should obtain ...”</p>

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## Appendix O – Comments on ED 20/05 – Proposed Auditing Standard: Auditing Fair Value Measurements and Disclosures (Re-issuance of AUS 526)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 30, 31 and 32</i></p> <p>Where alternative methods for measuring fair value are available under the entity’s applicable financial reporting framework, or where the method of measurement is not prescribed, the auditor shall evaluate whether the method of measurement is appropriate in the circumstances under the entity’s applicable financial reporting framework.</p> <p>Evaluating whether the method of measurement of fair value is appropriate in the circumstances requires the use of professional judgement. When management selects one particular valuation method from alternative methods available under the entity’s applicable financial reporting framework, the auditor, pursuant to paragraph 30 of this Auditing Standard, is required to obtain an understanding of management’s rationale for its selection by discussing with management its reasons for selecting the valuation method. The auditor pursuant to paragraph 30 of this Auditing Standard is required to consider whether:</p> <ul style="list-style-type: none"> <li>(a) management has sufficiently evaluated and appropriately applied the criteria, if any, provided in the applicable financial reporting framework to support the selected method;</li> <li>(b) the valuation method is appropriate in the circumstances given the nature of the asset or liability being valued and the entity’s</li> </ul>	<p>Paragraphs 31 and 32 extend the mandatory requirement in paragraph 30.</p>	<p>In order to avoid extending the mandatory requirements of the ED we recommend the Board amend paragraphs 31 and 32 as follows – “the auditor, pursuant to paragraph 30 of this Auditing Standard, is required to <u>will ordinarily</u> obtain an understanding of management’s rationale...” and “The auditor pursuant to paragraph 30 of this Auditing Standard is required to <u>will ordinarily</u> consider whether...” and “In such cases, the auditor will <u>ordinarily</u>, pursuant to paragraph 30 of this Auditing Standard, is required to evaluate how the entity has investigated...”</p>

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## Appendix O – Comments on ED 20/05 – Proposed Auditing Standard: Auditing Fair Value Measurements and Disclosures (Re-issuance of AUS 526)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>applicable financial reporting framework; and            (c) the valuation method is appropriate in relation to the business, industry and environment in which the entity operates.</p> <p>Management may have determined that different valuation methods result in a range of significantly different fair value measurements. In such cases, the auditor, pursuant to paragraph 30 of this Auditing Standard, is required to evaluate how the entity has investigated the reasons for these differences in establishing its fair value measurements.</p>		
<p><i>Paragraphs 58 and 59</i>            The auditor shall perform audit procedures on the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management’s assumptions.</p> <p>Pursuant to paragraph 58 of this Auditing Standard, the auditor is required to evaluate whether the data on which the fair value measurements are based, including the data used in the work of an expert, are accurate, complete and relevant; and whether the fair value measurements have been properly determined using such data and management’s assumptions. The auditor’s procedures also may include, for</p>	<p>Paragraph 59 extends the mandatory requirement in paragraph 58.</p>	<p>In order to avoid extending the mandatory requirements of the standard we recommend the Board amend paragraph 98 as follows – “Pursuant to paragraph 58 of this Auditing Standard, The auditor will ordinarily <del>is required to evaluate</del> whether the data...”</p>

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## Appendix O – Comments on ED 20/05 – Proposed Auditing Standard: Auditing Fair Value Measurements and Disclosures (Re-issuance of AUS 526)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>example, audit procedures such as verifying the source of the data, mathematical recalculation and reviewing of information for internal consistency, including whether such information is consistent with management’s intent to carry out specific courses of action discussed in paragraphs 28 and 29.</p>		
<p><i>Paragraphs 68 and 69</i> When disclosure of fair value information under the applicable financial reporting framework is omitted because it is not practicable to determine fair value with sufficient reliability, the auditor shall evaluate the adequacy of disclosures required in these circumstances.</p> <p>If the entity has not appropriately disclosed fair value information required by the applicable financial reporting framework, the auditor shall evaluate whether the financial report is materially misstated by the departure from the applicable financial reporting framework.</p>	<p>These paragraphs are grey letter in ISA 545 but have been elevated in this ED.</p>	<p>To enhance harmonisation with ISA 545 we recommend that the Board amend these paragraphs to mirror ISA 545.</p>
<p><i>Paragraph 72</i> The auditor shall endeavour to obtain written representations from management regarding the reasonableness of significant assumptions, including whether they appropriately reflect management’s intent and ability to carry out specific courses of action on behalf of the entity</p>	<p>This paragraph varies from ISA 545. ISA 545 says “the auditor should obtain”. Because of this the proposed ED is therefore less onerous than the equivalent ISA.</p> <p>Many auditors are members of professional bodies</p>	<p>To make the requirements clearer and to enhance harmonisation with ISA 545 we recommend that the Board amend this paragraph to mirror ISA 545 as follows, “The auditor should obtain ...”</p>



**Appendix O – Comments on ED 20/05 – Proposed Auditing Standard: Auditing Fair Value Measurements and Disclosures (Re-issuance of AUS 526)**

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
where relevant to the fair value measurements or disclosures.	<p>which are also members of IFAC. As members of IFAC those professional organisations are obliged to ensure that their standards are at the very least as robust as the IFAC standards.</p> <p>The ED does not indicate what amounts to “endeavour” or what an auditor should do if despite the auditor’s endeavours the client refuses to provide a representation. Furthermore a representation such as this is within management’s control to provide.</p>	



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## Appendix P – Comments on ED 21/05 – Proposed Auditing Standard: Using the Work of an Expert (Re-issuance of AUS 606)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 5</i></p> <p>When using the work performed by an expert, the auditor shall obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.</p>	<p>The use of the word “adequate” is very subjective and could be applied differently by different auditors.</p>	<p>To assist in consistent application of this paragraph we recommend that the Board provide additional guidance as to what is meant by “adequate”.</p>
<p><i>Paragraphs 12 and 13</i></p> <p>When planning to use the work of an expert, the auditor shall evaluate the professional competence of the expert.</p> <p>Pursuant to paragraph 12 of this Auditing Standard, this will involve considering the expert’s:</p> <ul style="list-style-type: none"> <li>(a) professional certification or licensing by, or membership in, an appropriate professional body; and</li> <li>(b) experience and reputation in the field in which the auditor is seeking audit evidence.</li> </ul>	<p>Paragraph 13 extends the mandatory requirement in paragraph 12.</p>	<p>Whilst these procedures are commonly performed by an auditor in assessing the work of an expert, in order to avoid extending the mandatory requirements of the ED we recommend the Board amend paragraph 13 as follows – “Pursuant to paragraph 12 of this Auditing Standard, this will involve considering ...”</p>
<p><i>Paragraphs 19 and 20</i></p> <p>The auditor shall evaluate the appropriateness of the expert’s work as audit evidence regarding the assertion being considered.</p> <p>Pursuant to paragraph 19 of this Auditing Standard, the auditor is required to evaluate whether the substance of the expert’s findings is properly reflected in the financial report or supports the assertions, and consideration of:</p> <ul style="list-style-type: none"> <li>(a) source data used;</li> </ul>	<p>Paragraph 20 extends the mandatory requirement in paragraph 19.</p>	<p>Whilst these procedures are commonly performed by an auditor in assessing the appropriateness of the expert’s work, in order to avoid extending the mandatory requirements of the standard we recommend the Board amend paragraph 20.</p>



Appendix P – Comments on ED 21/05 – Proposed Auditing Standard: Using the Work of an Expert (Re-issuance of AUS 606)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
(b) assumptions and methods used and their consistency with prior periods; and (c) results of the expert's work in the light of the auditor's overall knowledge of the business and the results of other audit procedures.		

## Appendix Q – Comments on ED 22/05 – Proposed Auditing Standard: Subsequent Events (Re-issuance of AUS 706)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraphs 15, 18, 19, 23, 24, 26</i></p> <p>When management amends the financial report, the auditor shall carry out the procedures necessary in the circumstances and shall provide management with a new report on the amended financial report.</p> <p>When the auditor's report has been released to the entity, the auditor shall notify those charged with governance not to issue the financial report and the auditor's report thereon to third parties.</p> <p>If the financial report is subsequently released, the auditor shall endeavour to take action to prevent reliance on the auditor's report.</p> <p>When management revises the financial report, the auditor shall carry out the audit procedures necessary in the circumstances, shall review the steps taken by management to endeavour to ensure that anyone in receipt of the previously issued financial report together with the auditor's report thereon is informed of the situation, and shall issue a new report on the revised financial report.</p> <p>The new auditor's report shall include an emphasis of matter paragraph referring to a note to the financial report that more extensively discusses the reason for the revision of the previously issued financial report and to the earlier report issued by the auditor.</p>	<p>These paragraphs are grey letter in ISA 560 but have been elevated in this ED.</p>	<p>To enhance harmonisation with ISA 560 we recommend that the Board amend these paragraphs to mirror ISA 560.</p>

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## Appendix Q – Comments on ED 22/05 – Proposed Auditing Standard: Subsequent Events (Re-issuance of AUS 706)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>When management does not take the necessary steps to endeavour to ensure that anyone in receipt of the previously issued financial report together with the auditor's report thereon is informed of the situation and does not revise the financial report in circumstances where the auditor believes it needs to be revised, the auditor shall notify those charged with governance of the entity that action shall be taken by the auditor to endeavour to prevent future reliance on the auditor's report.</p>		

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## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>Paragraphs 5, 14, 20 and 25</p> <p>When planning and performing audit procedures and in evaluating the results thereof, the auditor shall consider the appropriateness of management's use of the going concern assumption in the preparation of the financial report.</p> <p>Pursuant to paragraph 5 of this Auditing Standard:</p> <p>(a) the auditor's responsibility is to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial report,</p> <p>(b) the auditor is required to consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial report, and</p> <p>(c) the auditor is required to consider the appropriateness of management's use of the going concern assumption even if the financial reporting framework used in the preparation of the financial report does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.</p> <p>If management has not yet made a preliminary assessment, pursuant to paragraph 5 of this Auditing Standard, the auditor is required to discuss with management the basis for their</p>	<p>Paragraphs 14 (b), 14 (c), 20 and 25 extend the mandatory requirement in paragraph 5.</p>	<p>Whilst these procedures are commonly performed by an auditor, in order to avoid extending the mandatory requirements of the ED, we recommend the Board amend paragraphs 14(b), 14(c), 20 and 25.</p>

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## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>intended use of the going concern assumption, and inquire of management whether events or conditions, such as those discussed in paragraph 13, exist. The auditor may request management to begin making its assessment, particularly when the auditor has already identified events or conditions relating to the going concern assumption.</p> <p>In evaluating management’s assessment, the auditor ordinarily considers the process management followed to make its assessment, the assumptions on which the assessment is based and management’s plans for future action. Pursuant to paragraph 5 of this Auditing Standard, the auditor is required to consider whether the assessment has taken into account all relevant information of which the auditor is aware as a result of the audit procedures.</p>		
<p><i>Paragraphs 16, 17 and 27</i></p> <p>In obtaining an understanding of the entity, the auditor shall consider whether there are events or conditions and related business risks which may cast significant doubt on the entity’s ability to continue as a going concern.</p> <p>The auditor shall remain alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity’s ability to continue as a going concern in performing audit procedures throughout the audit.</p>	<p>The use of the phrase “significant doubt” is very subjective and could be applied differently by different auditors.</p>	<p>To assist in consistent application of this paragraph we recommend that the Board provide additional guidance as to what is meant by “significant doubt”.</p>

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## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>If such events or conditions are identified, the auditor shall, in addition to performing the procedures in paragraph 31, consider whether they affect the auditor's assessment of the risks of material misstatement.</p> <p>The auditor shall inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.</p>		
<p><i>Paragraphs 27 and 28</i></p> <p>The auditor shall inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>Pursuant to paragraph 27 of this Auditing Standard, the auditor is required to be alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial report. The auditor may become aware of such known events or conditions during the planning</p>	<p>Paragraph 28 extends the mandatory requirement in paragraph 28.</p>	<p>Whilst these procedures are commonly performed by an auditor, in order to avoid extending the mandatory requirements of the ED, we recommend the Board amend paragraph 28.</p>

## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>and performance of the audit, including subsequent events procedures.</p> <p><i>Paragraph 31</i></p> <p>When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) review management's plans for future actions based on its going concern assessment;</li> <li>(b) gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors; and</li> <li>(c) endeavour to obtain written representations from management regarding its plans for future action.</li> </ul>	<p>This paragraph varies from ISA 570. ISA 570 says "the auditor should obtain". Because of this the proposed ED is therefore less onerous than the equivalent ISA.</p>	<p>To make the requirements clearer and to enhance harmonisation with ISA 570 we recommend that the Board amend this paragraph to mirror ISA 570 as follows,</p> <p>"The auditor should obtain ..."</p>
<p><i>Paragraph 31</i></p> <p>When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:</p> <ul style="list-style-type: none"> <li>(d) review management's plans for future actions based on its going concern assessment;</li> <li>(e) gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including</li> </ul>	<p>Paragraph 32 extends the mandatory requirement in paragraph 31.</p>	<p>Whilst these procedures are commonly performed by an auditor, in order to avoid extending the mandatory requirements of the ED, we recommend the Board amend paragraph 32.</p>



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## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>considering the effect of any plans of management and other mitigating factors; and</p> <p>(f) endeavour to obtain written representations from management regarding its plans for future action.</p> <p>Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may be identified in performing risk assessment procedures or in the course of performing further audit procedures. The process of considering events or conditions continues as the audit progresses. When the auditor believes such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, pursuant to paragraph 31 of this Auditing Standard, the auditor is required to:</p> <ul style="list-style-type: none"> <li>• Inquire of management as to its plans for future action, including its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.</li> <li>• Consider whether any additional facts or information are available since the date on which management made its assessment.</li> <li>• Obtain sufficient appropriate audit evidence that management's plans are feasible and that the outcome of these plans will improve the situation.</li> </ul>		
<p><i>Paragraph 35, 36, 37, 39</i></p>		

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## Appendix R – Comments on ED 23/05 – Proposed Auditing Standard: Going Concern (Re-issuance of AUS 708)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>When the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the entity, for management to prepare the financial report on the going concern basis, the auditor shall issue an unmodified audit report in accordance with AUS 702 “The Independent Auditor’s Report on a Complete General Purpose Financial Report”.</p> <p>When consideration of mitigating factors, in particular management’s plans, have had a significant effect upon the auditor in forming the opinion that the going concern basis is appropriate, the auditor shall specifically consider the adequacy of the disclosure of the following matters in the financial report:</p> <ul style="list-style-type: none"> <li>(a) the principal conditions which caused the auditor to question the going concern basis, including as appropriate, management’s evaluation of their significance and possible effects; and</li> <li>(b) management’s plans and other mitigating factors, including as appropriate, relevant prospective financial information.</li> </ul> <p>If the disclosures considered necessary by the auditor are not made, the auditor shall express a qualified opinion on the basis of the lack of disclosure in accordance with AUS 702, “Modifications to the Independents Auditor’s Report”.</p>	<p>These paragraphs are grey letter in ISA 570 but have been elevated in this ED.</p> <p>The use of the phrases “reasonably foreseeable” (paragraph 35), “principal conditions” (paragraph 36) “significant doubt” (paragraph 37), “adequately disclosed” (paragraph 39, 40) are very subjective and could be applied differently by individual auditors.</p>	<p>To enhance harmonisation with ISA 570 we recommend that the Board amend these paragraphs to mirror ISA 570.</p> <p>To assist in consistent application of this paragraph we recommend that the Board provide additional guidance as to what is meant by these phrases.</p>