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23 December 2005

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

Dear Ms Kelsall,

Exposure Drafts ED 24/05, 25/05 and 26/05

We acknowledge and confirm our support of the group submission made by the Auditing Standards Response Group (“ASRG”) on 15 December 2005 which included comments on the above captioned exposure drafts (“EDs”) of proposed Australian Auditing Standards.

We have attached our comments in relation to each of the above captioned EDs as Appendices A to C. 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 Auditing and Assurance Standards Board (“the Board”) amend the effected paragraphs by using the ordinarily framework.
- In a number of instances the Board has elevated guidance paragraphs in the equivalent International Standard on Auditing (“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.
- In ED’s 24 and 25 the Board has included black letter requirements in relation to the titles to be included in audit reports. These requirements are not included in the equivalent ISA and do not appear to improve the overall quality of the auditing standards, we recommend that the Board remove or relegate these requirements.

We would be pleased to discuss our comments with members of the Board 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

Caithlin Mc Cabe

Partner

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 8</i> Unless required by law or regulation to use different wording, the auditor’s opinion on a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether the financial report “gives a true and fair view” or “is presented fairly, in all material respects,” in accordance with the applicable financial reporting framework.</p>	<p>This paragraph is included in ISA 700 as guidance only.</p>	<p>In order to maintain international harmonisation between this ED and ISA 700 we recommend the Board demote this paragraph to grey letter to align with ISA 700.</p>
<p><i>Paragraph 15</i> The auditor shall evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial report.</p> <p><i>Paragraph 16</i> When forming an opinion on the financial report, pursuant to paragraph 15 of this Auditing Standard, the auditor is required to evaluate whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial report taken as a whole is free from material misstatement. Pursuant to AUS 406 The Auditor’s Procedures in Response to Assessed Risks, and AUS 306, Materiality and Audit Adjustments, the auditor is required to conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level, the risks of material misstatement of the financial</p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraphs 16, 17 and 18 have the effect of extending the mandatory requirement in paragraph 15.</p>	<p>We recommend that the Board remove the “Pursuant” to phrase and replace it with “Ordinarily”, for example – “When forming an opinion on the financial report, pursuant to paragraph 15 of this Auditing Standard, the auditor ordinarily is required to evaluate whether, based on the audit evidence obtained, there is reasonable assurance about ...”</p>

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>report and to evaluate the effects of uncorrected misstatements identified.</p> <p><i>Paragraph 17</i> Pursuant to paragraphs 8 and 15 of this Auditing Standard, the auditor is required to form an opinion as to whether the financial report gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework which involves evaluating whether the financial report has been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures. Pursuant to paragraph 15 of this Auditing Standard, in undertaking this evaluation, the auditor is required to consider whether, in the context of the applicable financial reporting framework:</p> <ul style="list-style-type: none">(a) the accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;(b) the accounting estimates made by those charged with governance are reasonable in the circumstances;(c) the information presented in the financial report, including accounting policies, is relevant, reliable, comparable and		

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>understandable; and</p> <p>(d) the financial report provides sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial report, for example, in the case of a financial report prepared in accordance with Accounting Standards in Australia, the entity’s financial position, financial performance and cash flows.</p> <p><i>Paragraph 18</i></p> <p>Pursuant to paragraph 15 of this Auditing Standard, in forming an opinion as to whether the financial report gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework, the auditor is required to:</p> <p>(a) evaluate the fair presentation of the financial report;</p> <p>(b) consider whether the financial report, after any adjustments made by those charged with governance as a result of the audit process, is consistent with the auditor’s understanding of the entity and its environment;</p> <p>(c) consider the overall presentation, structure and content of the financial report ; and</p> <p>(d) consider whether the financial report, including the note disclosures, faithfully represents the underlying transactions and</p>		

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<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
events in a manner that gives a true and fair view of or presents fairly, in all material respects, the information conveyed in the financial report in the context of the financial reporting framework.		
<p><i>Paragraph 45</i></p> <p>When expressing an unqualified opinion, the auditor shall include a section headed “Auditor’s Opinion.” The opinion paragraph of the auditor’s report shall state the auditor’s opinion that the financial report gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording shall be used).</p>	<p>ISA 700 does not include the first sentence in this paragraph. Including this sentence as black letter could, in the extreme, result in an auditor not conducting their audit in accordance with auditing standards if they did not include a section heading of “Auditor’s Opinion”.</p> <p>It is currently accepted practice to follow the example reports published in the Appendices to AUS 702 and these include this heading.</p>	<p>In order to maintain international harmonisation between this ED and ISA 700 we recommend the Board either remove or demote the first sentence of this paragraph to grey letter to align with ISA 700.</p> <p>Similar occurrences of this occur at paragraphs 22-24 of ED 25/05.</p>
<p><i>Paragraph 48</i></p> <p>To advise the reader of the context in which the auditor’s opinion is expressed, pursuant to paragraph 45 of this Auditing Standard, the auditor’s opinion identifies the applicable financial reporting framework on which the financial report is based. When the applicable financial reporting framework is not the Accounting Standards in Australia, pursuant to paragraph 46 of this Auditing Standard, the auditor’s opinion also identifies the jurisdiction or country of origin of</p>	<p>The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraph 48 has the effect of extending the mandatory requirement in paragraph 45.</p>	<p>We recommend that the Board remove the “Pursuant to phrase and replace it with “Ordinarily”, for example – “Pursuant to paragraph 45 of this Auditing Standard, the auditor is required to ordinarily identifies the applicable financial reporting framework in such terms as:...”</p>

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>the applicable financial reporting framework. Pursuant to paragraph 45 of this Auditing Standard, the auditor is required to identify the applicable financial reporting framework in such terms as:</p> <p>“... in accordance with Accounting Standards in Australia” or</p> <p>“... in accordance with accounting principles generally accepted in Country X ...”</p>		
<p><i>Paragraph 49</i></p> <p>When the applicable financial reporting framework encompasses legal and regulatory requirements, pursuant to paragraph 45 of this Auditing Standard, the auditor is required to identify the applicable financial reporting framework in such terms as:</p> <p>“... in accordance with Accounting Standards in Australia and, when appropriate, other relevant statutory or other requirements” or</p> <p>“...in accordance with accounting principles generally accepted in Country X and the requirements of Country X Corporations Act.”</p>	Refer to comments on Paragraph 48 above	Refer to recommendations on Paragraph 48 above
<p><i>Paragraph 53</i></p> <p>The auditor’s report shall be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.</p>	<p>Paragraph 50 of ISA 700 only requires the audit report to be signed.</p> <p>We note that when an audit firm or audit company</p>	<p>In order to maintain international harmonisation between this ED and ISA 700 we recommend the Board either remove or demote to grey letter the words after “The auditor’s report shall be signed”</p>

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
	are appointed sections 324AB(3) and 324AD(1) of the Act require the reports to to be signed in both the firm, company (whichever is relevant) and the auditor’s name.	in this paragraph.
<p data-bbox="188 491 360 517"><i>Paragraph 65</i></p> <p data-bbox="188 523 779 689">The auditor shall be satisfied that any supplementary information presented together with the financial report that is not covered by the auditor’s opinion is clearly differentiated from the audited financial report.</p> <p data-bbox="188 727 360 753"><i>Paragraph 66</i></p> <p data-bbox="188 759 788 1324">As noted in paragraphs 30-32, the entity may be required to, or those charged with governance may choose to, include supplementary information together with the financial report. The auditor’s opinion is considered to cover supplementary information that cannot be clearly differentiated from the financial report because of its nature and how it is presented. In other circumstances, however, law or regulation may not require the supplementary information to be audited and those charged with governance may not ask the auditor to include the supplementary information within the scope of the audit of the financial report. When the supplementary information is not intended to be audited, pursuant to paragraph 65 of this Auditing Standard, the auditor is required to consider whether that supplementary information</p>	<p data-bbox="815 523 1411 657">The use of the phrase “Pursuant to paragraph X of this Auditing Standard ...the auditor is required to...” in paragraph 66 has the effect of extending the mandatory requirement in paragraph 65.</p>	<p data-bbox="1442 523 1944 625">We recommend that the Board remove the “Pursuant to phrase and replace it with “Ordinarily”.</p>

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>is presented in a manner that could be construed as being covered by the auditor’s opinion and, if so, asks those charged with governance to change how the information is presented. For example, the auditor considers where the unaudited information is presented in relation to the financial report and any audited supplementary information, and whether it is clearly labeled as “unaudited”. The auditor may, for example, ask those charged with governance to remove any cross references from the financial report to unaudited supplementary schedules or unaudited notes because the demarcation between the audited and unaudited information would not be sufficiently clear as such unaudited notes that are intermingled with the audited notes can also be misinterpreted as being audited. The auditor may also, for example, ask the entity to place the unaudited information outside of the set of a financial report, or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial report and clearly label them as unaudited.</p>		
<p><i>Example Auditor’s report – Corporate Entity Independence paragraph – single entity and consolidated entity</i> In conducting our audit, we have complied with the independence requirements of the <i>Corporations Act 2001</i>. We confirm that the</p>	<p>The Corporations Act (“the Act”) requires auditors to make an independence declaration – inserting this requirement into the audit report is duplication</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>

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Appendix A – Comments on ED 24/05 – Proposed Auditing Standard: The Independent Auditor’s Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>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 the financial report of [name of company/registered scheme/disclosing entity] is in accordance with the <i>Corporations Act 2001</i>, including:</p> <p>(a) giving a true and fair view of the [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</p> <p>(b) complying with Accounting Standards in Australia and the <i>Corporations Regulations 2001</i>.</p>	<p>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 700 in two ways (i) it refers to the entity’s performance whilst ISA 700 refers to “its financial performance and its cash flows” and (ii) it refers to the “year ended on that date” and ISA 700 refers to “the year then ended”.</p>	<p>We recommend that the Board amend the ED to align it completely with ISA 700.</p>

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Appendix B – Comments on ED 25/05 – Proposed Auditing Standard: Modifications to the Independent Auditor’s Report (Re-issuance of AUS 702) Part B

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 9</i> The auditor shall modify the auditor’s report by adding a paragraph to highlight a significant uncertainty regarding a going concern problem.</p>	<p>ISA 701 use the phrase “material matter regarding a going concern problem” whilst this ED uses the phrase “significant uncertainty”. We note that AUS 708 uses the phrases “material uncertainty” and “significant doubt”.</p> <p>This drafting could result in ED 25 being less onerous than ISA 701 as “material matters” are likely to be more broadly interpreted than “Significant uncertainty”.</p>	<p>To enhance harmonisation with ISA 701 we recommend that the Board amend this paragraph to mirror ISA 701. Alternatively guidance could be included in the standard to ensure that the same interpretation is made of the two phrases.</p>
<p><i>Paragraph 23</i> A disclaimer of opinion shall be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report. The opinion paragraph shall be headed “Disclaimer of Auditor’s Opinion”.</p> <p><i>Paragraph 24</i> An adverse opinion shall be expressed when the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor’s report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph shall be headed</p>	<p>ISA 701 does not include the last sentence in these paragraphs. Including this sentence as black letter could, in the extreme, result in an auditor not conducting their audit in accordance with auditing standards if they did not include the correct section heading.</p> <p>It is currently accepted practice to follow the example reports published in the Appendices to AUS 702 and these examples contain the headings as described in the example.</p>	<p>In order to maintain international harmonisation between this ED and ISA 701 we recommend the Board either remove or demote the last sentence of these paragraphs to grey letter to align with ISA 700.</p> <p>Similar occurrences of this occur at paragraph 45 of ED 24/05</p>

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Appendix B – Comments on ED 25/05 – Proposed Auditing Standard: Modifications to the Independent Auditor’s Report (Re-issuance of AUS 702) Part B

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p>“Adverse Auditor’s Opinion”.</p> <p><i>Paragraph 25</i> Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons shall be included in the auditor’s report and, unless impracticable, a quantification of the possible effect(s) on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore shall be included in the basis for modification paragraph of the auditor’s report.</p>		
<p><i>Paragraph 27</i> When a major component of the financial report has been omitted, or is fundamentally misstated, it may not be appropriate for the auditor to generate the required information necessary to fully detail the financial effect of the matter. The auditor’s report shall include a statement indicating that the financial effect of the omission has not been detailed and the reasons therefore.</p>	<p>ISA 701 does not include this requirement. Including this paragraph could result in ED 25 being less onerous than ISA 701 if an auditor’s report does not quantify the effects of the matter on the financial report.</p>	<p>To enhance harmonisation with ISA 701 we recommend that the Board delete this paragraph and also the related guidance at paragraph 28.</p>
<p><i>Current Standard paragraph 43</i> Before expressing a qualified opinion, the auditor should take all reasonable steps to be in a position to express an unqualified opinion.</p>	<p>This paragraph has not been retained in the ED.</p>	<p>We recommend that the Board retain this requirement in the revised standard as guidance as it is sometimes used to prevent auditors from issuing modified opinions as an alternative to costly additional audit procedures.</p>

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Appendix B – Comments on ED 25/05 – Proposed Auditing Standard: Modifications to the Independent Auditor’s Report (Re-issuance of AUS 702) Part B

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Appendix 2</i> Refer to comments in ED24/05 in relation to independence declaration and form of opinion.</p> <p><i>Example 4</i> <i>Disclaimer of Auditor’s Opinion</i> In our opinion, <i>because of the existence of the limitation on the scope of our work, as described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether</i> the financial report of [name of entity] is in accordance with the Corporations Act 2001, including:</p> <p>(a) giving a true and fair view of the [company/registered scheme/disclosing entity]’s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and</p> <p>(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.</p>	<p>This example wording varies from the example wording in ISA 701.</p>	<p>In order to maintain international harmonisation between this ED and ISA 701 we recommend the Board amend this paragraph to align with ISA 701</p> <p>“Because of the significance of the matters discussed in the preceding paragraph we do not express an opinion as to whether the financial report of ...”</p>

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Appendix C – Comments on ED 26/05 – Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
<p><i>Paragraph 5</i></p> <p>The auditor shall perform audit procedures designed to:</p> <p>(a) obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial report; and</p> <p>(b) reduce to an acceptably low level the risks of material misstatements in the financial report resulting from the existence of related parties and related party transactions.</p>	<p>Paragraph (b) is not included in ISA 550. The requirement here is addressed by the requirements in ED 2/05 at paragraphs 6 and 8.</p>	<p>In order to maintain international harmonisation between this ED and ISA 550 and to avoid duplication of requirements in two standards we recommend the Board delete part (b) of this paragraph.</p>
<p><i>Paragraph 12</i></p> <p>Based on the auditor’s knowledge of the business and enquiries of management, the auditor shall assess the risk that related parties and related party transactions will not be identified, or that related party transactions will not be disclosed or measured in accordance with the applicable financial reporting framework.</p>	<p>This paragraph is not included in ISA 550. The requirement to assess risks is addressed by ED 2/05.</p>	<p>In order to maintain international harmonisation between this ED and ISA 550 and to avoid duplication of requirements in two standards we recommend the Board delete or at least relegate this paragraph to grey letter.</p> <p>There are a number of grey letter paragraphs (for example paragraphs 13, 15,16,17, 18,) in this ED that are not also contained in ISA 550, unless these are required to assist in understanding the standard from an Australian context we recommend that the paragraphs be deleted.</p>
<p><i>Paragraph 22</i></p> <p>When performing audit procedures which may identify related parties and related party transactions, the auditor shall consider the</p>	<p>This paragraph is not included in ISA 550.</p>	<p>In order to maintain international harmonisation between this ED and ISA 550 we recommend the Board delete or at least relegate this paragraph to</p>

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Appendix C – Comments on ED 26/05 – Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
substance of the relationship and/or transaction being tested and not merely the legal form.		grey letter.
<p><i>Paragraph 32</i> The auditor shall discuss with those charged with governance the nature, extent and business rationale of significant related party relationships and transactions, including those involving actual conflicts of interest.</p>	This paragraph is not included in ISA 550. The requirement to assess risks is addressed by AUS 710.	In order to maintain international harmonisation between this ED and ISA 550 and to avoid duplication of requirements in two standards we recommend the Board delete or at least relegate this paragraph to grey letter.
<p><i>Paragraph 37</i> If the auditor is unable to:</p> <ul style="list-style-type: none"> (a) obtain sufficient appropriate audit evidence regarding related parties and related party transactions; or (b) form a conclusion as to the completeness of the disclosure of related party relationships and transactions, the auditor shall, in accordance with AUS 702 “Modifications to the Independent Auditor’s Report”¹, express an “except for” opinion or an inability to form an opinion on the basis of a limitation on the scope of the audit. <p><i>Paragraph 38</i> If the auditor concludes that the related party disclosures in the financial report:</p> <ul style="list-style-type: none"> (a) do not satisfy the requirements of the relevant accounting standard; or (b) are otherwise inadequate, the auditor shall, in accordance with AUS 702, express an “except 	These paragraphs are not included in ISA 550. The requirement to issue modified audit reports is included in ISA 701 / ED 25/05.	In order to maintain international harmonisation between this ED and ISA 550 and to avoid duplication of requirements in two standards we recommend the Board delete or at least relegate these paragraphs to grey letter.

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Appendix C – Comments on ED 26/05 – Proposed Auditing Standard: Related Parties (Re-issuance of AUS 518)

<i>Paragraph/s</i>	<i>Comments</i>	<i>Recommendation/s</i>
for” opinion or an adverse opinion.		