

29 August 2008

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Via email to: edcomments@auasb.gov.au

Dear Ms Kelsall

Exposure Drafts

5/08: Proposed Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*

6/08: Proposed Auditing Standard ASA 260 *Communication with Those Charged with Governance*

7/08: Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

8/08: Proposed Auditing Standard ASA 330 *The Auditor's Responses to Assessed Risks*

The accounting bodies welcome the opportunity to comment on these first four exposure drafts of revised Auditing Standards in *Clarity* format.

We have chosen to provide comments on all four EDs in the one letter, but have clearly identified where references are being made to one particular standard.

Specific Questions

We offer the following comments on the questions posed in the EDs.

- **Have applicable laws and regulations been appropriately addressed in the proposed standard?**

We believe applicable laws and regulations have been appropriately addressed.

- **Are there any references to relevant laws or regulations that have been omitted?**

The Board may consider whether references should be provided to relevant sections of the *Corporations Act* pertaining to the protection for whistleblowers, in particular disclosures that are protected by law and the confidentiality requirements for auditors (refer Part 9.4AAA of the *Corporations Act 2001*). For example, such a reference may be made at ASA 240, paragraph 43. This comment may also be applicable for other standards that have yet to be revised (e.g., ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.)

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- **Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

- **What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?**

Across the four EDs there are 73 new or elevated requirements with which auditors must comply. Potentially, this may significantly increase costs for auditors and the business community, in terms of the need to modify audit methodologies, and update and provide necessary training materials to professional members. However, we recognise that many of these additional requirements form part of current best practice for most firms, and hence will limit the increased cost of compliance. While the costs and benefits are difficult to assess, we acknowledge that there are considerable benefits to be achieved from the implementation of these proposed standards by contributing to better, more effective auditing. Such benefits are seen as being in the public interest.

- **Are there any other significant public interest matters that constituents may wish to raise?**

There are no other significant public interest matters we wish to raise.

Other Matters

There are several other matters to which we wish to draw the Board's attention.

- **ED 6/08 (Proposed ASA 260) – Paragraph 13(b)(i) – two sentences included which have no extant ASA equivalent**

While we recognise that it is common practice within Australia for the auditor to communicate to those charged with governance the total fees charged for audit and non-audit services, it is not clear that this is done for the purpose that those charged with governance can assess the effect on the independence of the auditor. The Board may consider re-wording this paragraph, as we believe that it would normally be seen to be the responsibility of the auditor to assess whether independence has been impaired.

- **ED 6/08 (Proposed ASA 260) – Paragraph Aus 15.1 – similar to paragraph 28 (mandatory) in extant ASA**

We agree with the Board's decision to retain this paragraph as a "Requirement" in the proposed standard. However, the extant ASA, paragraph 28 was followed by two paragraphs of guidance. The Board may consider whether application guidance may be provided for this paragraph.

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- **ED 6/08 (Proposed ASA 260) – Paragraph A25**

There appears to be an inconsistent use of footnoting, with an asterisk being used for the footnote in this paragraph, rather than the usual numbering. Also, the APESB has been incorrectly identified as the *Australian* Professional and Ethical Standards Board. It should read **Accounting** Professional and Ethical Standards Board.

- **ED 7/08 (Proposed ASA 315) – Paragraph 17 – last sentence which has no extant ASA equivalent**

This sentence may be read to suggest that any “ad hoc” process of risk assessment would not be documented. We believe that this may not necessarily always be the case, as some “ad hoc” assessments may be in writing. The Board may wish to consider re-wording this sentence to clarify whether the evaluation required by the auditor also extends to situations where an “ad hoc”, yet documented, risk assessment is undertaken by the entity.

- **ED 7/08 (Proposed ASA 315) – Paragraph 32 – words in parentheses which have no extant ASA equivalent; ED 8/08 (Proposed ASA 330) – Paragraph 19 – words in parentheses which have no extant ASA equivalent**

We understand that the intent of the words included in the parentheses is to indicate to the auditor that there would be no requirement to communicate separately with “those charged with governance”, where they are also the management of the entity. The auditor would have already communicated with them in their role of management, in terms of the earlier part of the paragraph. (That is, it is indicating to the auditor that there is no need to provide communication twice to the same group of people, who are both management and those charged with governance.) However, use of the word “unless” implies that there is an alternative action required by the auditor in the situation described. The Board may wish to consider re-wording this sentence to clarify the intent of these paragraphs.

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Reece Agland (NIA) at 03 8665 3115.

Yours sincerely



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