

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007
1 September 2008

Dear Ms Kelsall,

Re: Exposure Draft ED 05/08 to ED 08/08

We appreciate the opportunity to comment on the following exposure drafts (the "ED's") as developed by the Australian Auditing and Assurance Standards Board (the "AUASB"):


- Exposure Draft ED 05/08 Proposed Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (Revised and Redrafted) (Re-issuance of ASA 240).
- Exposure Draft ED 06/08 Proposed Auditing Standard ASA 260 *Communication with Those Charged with Governance* (Revised and Redrafted) (Re-issuance of ASA 260).
- Exposure Draft ED 07/08 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* (Revised and Redrafted) (Re-issuance of ASA 315).
- Exposure Draft ED 08/08 Proposed Auditing Standard ASA 330 *The Auditor's Responses to Assessed Risks* (Revised and Redrafted) (Re-issuance of ASA 330).

Overall, we are supportive of the main changes to the requirements of the proposed auditing standards. Attachment 1 to this letter sets out our specific comments in respect of individual ED's. Attachment 2 to this letter sets out our response to the five questions on which the AUASB is seeking a response.

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 5060 or Bernadette Dillon on 02 9322 7423.

Yours sincerely,

Deloitte Touche Tohmatsu



Kristen Wydell
Partner

ATTACHMENT 1 Specific comments on the ED's

Exposure Draft ED 05/08 Proposed Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (Revised and Redrafted) (Re-issuance of ASA 240)

Paragraph	Comment
Au A55.1	<p>Paragraph Au A55.1 states:</p> <p><i>“For an engagement under the Corporations Act 2001, the possibility of withdrawing from the engagement or resigning from the appointment as an auditor can only be made in accordance with the provisions of section 329 of the Corporations Act 2001, including obtaining consent to resign from the Australian Securities and Investments Commission (ASIC). For guidance on the resignation of auditors under the Corporations Act 2001, refer ASIC Regulatory Guide 26 “Resignation of auditors” and Regulatory Guide 43 “Accounts and audit relief.”</i></p> <p>This paragraph contains statements which we believe are factually incorrect and which we recommend the AUASB re-visit. For example, under the Corporations Act 2001 (the “Act”):</p> <ul style="list-style-type: none"> • Section 329 of the Act applies to the removal and resignation of company auditors only, and not, for example, the resignations of an auditor of a proprietary company holding an AFS licence (dealt with in section 990 of the Act) or an auditor of a registered scheme (dealt with in section 331AC of the Act). • ASIC’s consent is not required where the company is a proprietary company which does not hold an AFS licence. • ASIC Regulatory Guide 26 “Resignation of auditors” relates to the resignation of auditors of a public company only (section 329(6) of the Act).
Au A59.1	<p>We recommend the following amendment to paragraph Au A59.1:</p> <p><i>“Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identify of the person who has disclosed confidential information that alleges a breach of the law. <u>Consequently In such cases, the auditor may consider it appropriate to obtain legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.</u>”</i></p>

Exposure Draft ED 06/08 Proposed Auditing Standard ASA 260 *Communication with Those Charged with Governance* (Revised and Redrafted) (Re-issuance of ASA 260).

Paragraph	Comment
13(b)	<p>The Corporations Act 2001 (“the Act”) and APES 110 Code of Ethics for Professional Accountants (“APES 110”) provide a comprehensive framework of auditor independence obligations and the proposed wording in paragraph 13(b) is not consistent with such obligations. In particular, it creates new obligations which are more onerous than those that currently exist and provides others which are contradictory. We strongly recommend the AUASB reconsider the attempt to duplicate or paraphrase requirements which already exist in standards and law and thereby avoid confusion. We consider that ASA 260 should simply refer to existing requirements, as contained in the Act and APES 110.</p> <p>Our detailed comments in relation to paragraph 13(b)(i) are as follows:</p> <p><i>“In the case of an audit conducted under Part 2M.3 of the Corporations Act 2001, the auditor shall communicate with those charged with governance:</i></p> <p><i>(i) A statement that the engagement team and others in the firm, as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence and any regulatory requirements that may apply to the audit engagement; and</i></p> <ul style="list-style-type: none"> • The sub-paragraph establishes a higher standard than required by the Act and APES 110 which require the statement to be made “to the best of the auditor’s knowledge and belief.” • The sub-paragraph does not establish what statement is to be made if there has been non-compliance. • It is unclear whether the auditor is required to communicate with those charged with governance in writing or orally. <p>Our detailed comments in relation to paragraph 13(b)(ii) are as follows:</p> <p><i>(ii) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial report for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor;</i></p> <ul style="list-style-type: none"> • APES 110 (paragraphs 290.29-290.30) requires firms to communicate relationships and other matters reasonably thought to bear on independence only in the case of the audit of listed entities, disclosing entities and registered schemes. The Act does not require such communication. • Section 300 of the Act requires the disclosure of non-audit fees for <i>listed entities only</i> and the director’s assessment as to whether such services are compatible with the general standard of independence for auditors imposed by

	<p>the Act. Paragraph 13(b)(ii) purports to extend this requirement beyond that contemplated by the Act and the equivalent international standard.</p> <ul style="list-style-type: none">• As it currently standards, this sub-paragraph is potentially onerous for significant group audits, where there are numerous wholly owned subsidiaries. It is unclear whether the AUASB intends such communication to occur at the subsidiary level, or whether communication to and consideration by those charged with governance of the parent entity of the auditor's involvement with the whole group is sufficient.
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ATTACHMENT 2 Specific questions on which the AUASB is seeking a response

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

No further comment other than those in Attachment 1.

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

No further comment other than those in Attachment 1.

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

No further comment other than those in Attachment 1.

4. *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?*

With the exception of the matter noted above regarding Exposure Draft ED 06/08 Proposed Auditing Standard ASA 260 *Communication with Those Charged with Governance* (Revised and Redrafted) (Re-issuance of ASA 260), we don't believe there will be additional significant costs arising from compliance with the main changes to the requirements of the proposed auditing standards.

5. *Are there any other significant public interest matters that constituents wish to raise?*

None.