



2 April 2009

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

Dear Ms. Kelsall,

EXPOSURE DRAFT 03-09, ASA 700 (Revised and Redrafted), FORMING AN OPINION AND REPORTING ON A FINANCIAL REPORT

EXPOSURE DRAFT 04-09, ASA 705 (Revised and Redrafted), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

EXPOSURE DRAFT 05-09, ASA 706 (Revised and Redrafted), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

EXPOSURE DRAFT 06-09, ASA 800 (Revised and Redrafted), SPECIAL CONSIDERATIONS – AUDITS OF FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

EXPOSURE DRAFT 07-09, ASA 805 (Revised and Redrafted), SPECIAL CONSIDERATIONS – AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

EXPOSURE DRAFT 08-09, ASA 810 (Revised and Redrafted), ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Drafts referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

We have reviewed the Proposed Revised and Redrafted Auditing Standards mentioned on the cover letter. Our response to the generic questions applies to all the aforementioned proposed standards. We have also included other specific comments on each proposed standard.

Questions

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

We believe the applicable laws and regulations been adequately addressed in all the proposed standards.

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

We believe all the proposed standards will adequately capture any other legislative instruments that require the conduct of an audit.

3. 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 do not believe current laws or regulations will prevent or impede the application of the all the proposed standards, or may conflict with the proposed standards.

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?

We do not believe there are any additional significant costs to the auditors and the business community arising from compliance with the main changes to the Requirements of all of the proposed Auditing Standards.

Where the main changes include expanded requirements relating to increased/improved documentation, there may be associated costs for a firm to ensure compliance with the proposed Auditing Standards. Associated costs include changes to office policies, procedures and templates and addressing training needs. The cost to each firm will depend upon the firm's current practices.

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

We do not have any other significant public interest matters to comment on.

ED 03-09, ASA 700 (Revised and Redrafted) 'Forming an Opinion and Reporting on a Financial Report'

Main changes from existing ASA 700 'The Auditor's Report on a General Purpose Financial Report (April 2006 as amended)

Proposed standard ASA 700 provides useful guidance on auditor's considerations when laws or regulations prescribe an audit opinion.

We support the main changes to the proposed standard ASA 700.

We identified one minor grammatical error. Paragraph A20 has two full stops after the word error.

ED 04-09, ASA 705 (Revised and Redrafted) ‘Modifications to the Opinion in the Independent Auditor’s Report’

Main changes from existing ASA 701 ‘Modifications to the Auditor’s Report’ (April 2006 as amended)

Proposed standard ASA 705 provides:

- useful guidance in the event of management imposing limitations on the scope of the audit
- improved guidance on how to modify an Independent Auditor’s Report in the body of the requirements (where similar guidance in extant ASA 701 was located in the Appendix).

Other than that described below, we support the main changes in the proposed standard ASA 705.

Conflict between Applicable Financial Reporting Frameworks

We believe it would be useful for proposed standard ASA 705 to provide an example of an Independent Auditor’s Report when there is a conflict between applicable financial reporting frameworks (Aus 15.1).

Basis for Modification Paragraph

Paragraph 19 of proposed standard ASA 705 describes the requirements where there is a material misstatement of the financial report that relates to the non-disclosure of information required to be disclosed.

We believe it would be useful for proposed standard ASA 705 to provide a sample ‘basis for modification paragraph’ when paragraph 19 (b) and (c) apply.

Also in the event that it is not practicable for the auditor to include the omitted disclosures in the ‘basis for modification paragraph’, we believe additional guidance similar to that of paragraph 27 of extant ASA 701 would be useful.

Grammatical error in application paragraph A15

Paragraph A15 repeats the word ‘legal’. Below is an extract of A15 and indicates what to delete.

When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory ~~or legal~~ requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity’s owners (paragraph A15).

Inconsistent cross-reference

Paragraph 19(c) is cross-referenced to A19. However, A19 is cross-referenced to 19(b).

EXPOSURE DRAFT 05-09, ASA 706 (Revised and Redrafted) 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report'

Main changes from existing ASA 701 'Modifications to the Auditor's Report' (April 2006 as amended)

Other than that described below, we support the main changes in the proposed standard ASA 706.

Other Matter Paragraphs in the Auditor's Report

Paragraph 7(d) states that when the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall indicate that the auditor's opinion is not modified in respect of the matter emphasised. There is no equivalent principal covering Other Matter Paragraphs.

As an Other Matter Paragraph is not intended to modify the auditor's opinion, we suggest proposed standard ASA 706 include an application paragraph prompting an auditor to consider indicating that the auditor's opinion is not modified in respect of the Other Matter Paragraph.

EXPOSURE DRAFT 06-09, ASA 800 (Revised and Redrafted) ‘Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks’

Main changes from existing ASA 800 ‘The Auditor’s Report on Special Purpose Audit Engagements (April 2006, as amended)’

Other than that described below, we support the main changes in the proposed standard ASA 800.

Acceptability of the Financial Reporting Framework

Paragraph 8 requires the auditor to obtain an understanding of the intended users and their acceptance of the financial reporting framework.

This new audit procedure will increase audit costs.

Considerations when planning and performing the Audit

The last sentence in paragraph A9 adopts similar wording to the equivalent section in ISA 800 (revised and redrafted):

‘in exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an Auditing Standard by performing alternative audit procedures to achieve the aim of that requirement’.

The equivalent paragraph in proposed standard ASA 805 (paragraph A5) states:

‘in rare and exceptional circumstances, when there are factors outside the auditor’s control that prevent the auditor from complying with a requirement, the auditor, where possible, performs appropriate alternative audit procedures’

Although this is a departure from the equivalent section in ISA 805 (revised and redrafted), this is acceptable as the principal is consistent with paragraph Aus 23.1 of ASA 200 (revised and redrafted, marked up version dated February 2009). For consistency purposes, we suggest that both paragraphs use the same wording.

We also suggest that our comment on paragraph A5 of proposed standard ASA 805, if accepted, be applied to paragraph A9 of proposed standard ASA 800.

Footnote 10

The cross-references to footnote 10 do not appear to be consistent with ASA 200 (revised and redrafted, marked up version dated February 2009).

We suggest comparing footnote 10 to footnote 14 in proposed standard ASA 805.

EXPOSURE DRAFT 07-09, ASA 805 (Revised and Redrafted) ‘Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement’

Main changes from existing ASA 800 ‘The Auditor’s Report on Special Purpose Audit Engagements (April 2006, as amended)’

Other than that described below, we support the main changes in the proposed standard ASA 805.

Considerations when accepting the engagement

The last sentence of paragraph A5 requires the auditor to perform appropriate alternative audit procedures in certain circumstances.

The equivalent paragraph in ISA 805 (Revised and Redrafted) provides further context to the ‘appropriate alternative audit procedures’, i.e. that they should be performed to achieve the aim of the requirement that the auditor has departed from.

We suggest that proposed standard ASA 805 include similar wording.

Consistency in footnotes

Application paragraph A10 includes a footnote to Australian Auditing Standards 240 and 550. For consistency purposes, we suggest including a similar footnote to ASA 570 in that paragraph.

ED 08-09, ASA 810 (Revised and Redrafted) 'Engagements to Report on Summary Financial Statements'

Main changes from existing ASA 800 'The Auditor's Report on Special Purpose Audit Engagements (April 2006, as amended)'

Other than that described below, we support the main changes in the proposed standard ASA 810. Proposed standard ASA 810 provides useful guidance on audit procedures and the form of the audit opinion.

Definition of 'Audited Financial Report'

Footnote 1 explains that ASA 200 defines the term 'financial report' to mean 'a complete set of financial statements for the year ending and the half-year respectively, and the director's declaration about the statements and notes, as defined in the *Corporations Act 2001*' (see paragraph Aus 13.1 in ASA 200 (revised and redrafted, marked up version dated February 2009).

If the term 'audited financial report' in proposed standard ASA 810 encompasses the term 'financial report' (as defined above) the application of ASA 810 appears to be restricted to those type of financial reports defined in Aus 13.1 of ASA 200. However, we do not believe that is the intention of ASA 810.

References to the 'Financial Report' and a 'complete set of financial statements'

Given the issue mentioned above, we are unsure about the purpose of paragraph Aus 0.1. The difference between paragraphs Aus 0.1 and 1 is that Aus 0.1 distinguishes a 'complete set of financial statements' from a 'financial report'.

Paragraph 14(d)

The equivalent paragraph in ISA 810 refers to management's responsibility. However, the proposed ASA 810 has changed one of the references from 'management' to 'those charged with governance'. By doing so, paragraph 14(d) now implies a different meaning to that of the ISA equivalent. It could be interpreted that where those charged with governance are a different body from management, those charged with governance can now dispose of their responsibility over the summary financial statements by stating that management has the responsibility for the preparation of the summary financial statements. ASA 700 has better wording for this element of the auditor's report.

Footnote to the scope in paragraph one

The footnote states that the scope excludes the auditor's report on a concise financial report prepared in accordance with AASB 1039.

We suggest including a reference to GS001 'Concise Financial Reports' as being the applicable pronouncement to refer to when providing an audit opinion on a concise financial report.