



19 May 2009

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

Dear Ms. Kelsall,

ED 09/09 Proposed Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements.*

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft 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

Exposure Draft 09/09 Proposed Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements

ACAG has reviewed the proposed standard and provides comments below.

Comment on the ASQC 1

General Comment

We note that, to a large extent, the proposed standard duplicates the requirements of APES320 Quality Control for Firms (although APES 320 extends to the provision of non assurance services and in this respect is more comprehensive).

However, ACAG supports the proposed ASQC1 to the extent to which it will bring the quality control requirements for the firm within the legislative framework of the AUASB and in doing so will increase the confidence that the quality control framework brings to assurance services.

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

Yes – we believe applicable laws and regulations have been adequately addressed in the proposed standard.

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

No – we believe the proposed standard will adequately capture any other legislative instruments impacting the conduct of an audit. However, a point of clarification is made under *Other Comments* below, in respect of application paragraph Aus A1.1.

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?

No – we do not believe current laws or regulations will prevent or impede the application of the proposed standard, or may conflict with the proposed standard. However refer to the point of clarification discussed in response to question 2 above.

We note that the AUASB has written to the APESB suggesting that any overlap and duplication of requirements and guidance between its proposed standards on Quality Control and APES320, in so far as it applies to systems of quality control established by firms performing auditing and assurance engagements, be minimised. We support this approach in ensuring that there is no conflict between the proposed standard and the existing APES320.

ACAG notes however, that since both APES 320 and the proposed standard cover the same requirements, at least as these relate to auditing and assurance services provided by firms, care should be taken to ensure the standards remain equivalent. Inconsistencies may lead to inconsistent application of quality control processes and difficulty in policing and prosecuting breaches.

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?

No – we do not believe there are any additional significant costs to the auditors and the business community arising from compliance with the requirements of the proposed auditing standard.

The costs of complying with this standard, which is based on ISQC1, should be relatively small given that assurance practitioners will have already incurred the costs of complying with APES 320 which also draws heavily on ISQC1.

However, ACAG notes there will be additional costs to the extent that practitioners must monitor changes to two standards, and there may be additional costs to regulators and prosecutors as defences may be mounted using either standard, should the standards cease to be equivalent.

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

No – we have not identified any other significant public interest matters.

Other Comments

Paragraph 12 (b) definition of engagement documentation

12 (b) states:

Engagement documentation means the record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).

We believe the definition of engagement documentation should incorporate the definition of audit documentation in ASA 230. Therefore the addition of the word evidence is suggested as follows:

Engagement documentation means the record of work performed, evidence and results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).

Application paragraph Aus A1.1

Considerations specific to Public Sector Entities (Ref: Para. 14)

For assurance engagements conducted in the public sector by Auditors-General pursuant to legislation, compliance with the requirements of this Standard may not be relevant relating to independence (see paragraphs 21-25), and acceptance and continuance of client relationships and specific engagements (see paragraphs 26-28).

We consider that this paragraph as written implies that there may be some instances where the independence requirements of the standard do not apply. However while there may be instances where some of the independence requirements of the standard are not applicable we cannot envisage a situation where all of the stated requirements would not apply. To clarify the intention the following addition is suggested:

For assurance engagements conducted in the public sector by Auditors-General pursuant to legislation, public sector auditors should have regard to the public sector mandate and address any threats in that context. Requirements relating to Independence (paragraphs 21-25), and the Acceptance and Continuance of Client Relationships and Specific Engagements (paragraphs 26-28) may not be consistent with the Auditor-General's legislative mandate in all circumstances.

Paragraph 34 Consultation

The conclusion reached following a consultation may not be the result of agreement between the consulting parties. When this occurs a course of actions may be taken which is alternate to that proposed during the consultation process and the reasons for this should be documented. We suggest the following amendment to paragraph 34 (d) to clarify the action to be taken in these circumstances.

34. The firm shall establish policies and procedures designed to provide it with reasonable assurance that:

- (d) Conclusions resulting from consultations are implemented or the reasons alternate courses of action were undertaken are documented. (Ref: Para. A36-A40)

Monitoring - Application paragraphs A64-A68

There is currently no public sector guidance on the application of paragraph 48 Monitoring. We suggest an additional paragraph re 'Consideration specific to public sector organisations' be included after paragraph A68 to clarify the application of paragraph 48 (a) in the public sector..

It is suggested that the additional paragraph would be worded as follows:

Consideration specific to public sector organisations

In the public sector, a statutorily appointed auditor (for example, an Auditor-General) may delegate responsibility for an engagement. The monitoring process should include, on a cyclical basis, inspection of at least one completed engagement of each person delegated responsibility for an engagement and its performance. This includes suitably qualified external persons engaged as the person responsible for the engagement.

Implications to other existing standards

We note some references in the existing standards that may require modification should this proposed standard be implemented:

- the Foreword to the AUASB Pronouncements at Appendix 1 - the diagram should illustrate the place of the new standard in the assurance framework

- ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* makes reference to APES 320 *Quality Control for Firms* as specifying obligations for quality control – such references should be updated to include both standards
- there is a confusing use of terms by the AUASB and the IAASB. We note the proposed standard is titled an “Auditing Standard” yet it applies to Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements, including both audits and reviews of either historical or non-historical information - see paragraph Aus 12.1. We suggest a better title is an “Auditing and Assurance Standard”.