



18 May 2009

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

Dear Ms. Kelsall,

ED 12/09, Proposed Auditing Standard ASA 265, *Communicating Deficiencies in Internal Control to those Charged with Governance and Management*

ED 13/09, Proposed Auditing Standard ASA 402, *Audit Considerations Relating to an Entity using a Service Organisation* (Revised and Redrafted)

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

ACAG has reviewed the proposed Auditing Standards referred to above and provides responses to the questions detailed in the request for comment section of the proposed Auditing Standard.

Exposure Draft 12/09 Proposed Auditing Standard ASA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management

Questions

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

See question 3 below.

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

See question 3 below.

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?

In certain jurisdictions, the Auditor-General's mandate includes forming an opinion on controls for a given entity. Paragraph 11(b)(ii) mandates that the auditor shall include in the written communication of significant deficiencies in internal control an explanation that the audit considered controls, but not for the purpose of expressing an opinion on controls. The IAASB noted in its basis of conclusions on ISA 265 "*that the essential meaning of a significant deficiency should not depend on the nature of the engagement (i.e., whether the auditor has been engaged to express an opinion on the effectiveness of internal control, as in an integrated audit under PCAOB standards, or whether the auditor has been engaged to audit the financial statements)*"

We believe a similar approach should be adopted in the wording of this paragraph as has been used in ED 3/09 Proposed Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* paragraph 31(b), which provides for situations where an opinion on controls is expressed.

4. What, if any, are the significant costs to/benefits for auditors and the business community arising from compliance with 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 would be any additional significant costs to the auditors and the business community arising from compliance with the requirements of this proposed Auditing Standard. In any case we consider that the benefits of formal communication of significant deficiencies in internal control outweigh the associated costs.

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.

Additional Comments

Communication of Other Deficiencies in Internal Control to Management – A23

We suggest that A23 include a footnote that oral communication still needs to be documented in accordance with ASA 230 Audit Documentation, paragraph 10.

Internal Referencing

The footnote to paragraph A12 refers to ASA 260 paragraph 13. This should be ASA 260 paragraph 9.

We identified one minor grammatical error. Paragraph A7 there is an unnecessary comma after e.g.

Exposure Draft 13/09 Proposed Auditing Standard ASA 402 *Audit Considerations Relating to an Entity using a Service Organisation* (Revised and Redrafted)

Comments on the main changes from the existing ASA 402

We believe that the main changes from the existing ASA 402 are reasonable.

Questions

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

We believe applicable laws and regulations have been appropriately addressed in the proposed standard.

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

The extant ASA 402 indicates that additional statutory and regulatory responsibilities may be affected by the entity's use of the service organisation, including a reference to s307(c) and s307(d) of the *Corporations Act 2001* which requires the auditor to form an opinion on whether the entity has kept proper financial records, and other records and registers as required by that Act. The Proposed ASA 402 does not make reference to these requirements.

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 that any laws or regulations prevent or impede the applications of the proposed standard, or will conflict with the standard.

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 would be any additional significant costs to the auditors and the business community arising from compliance with the requirements of this proposed Auditing Standard.

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

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

Additional Comments

Paragraphs 21 and A27 refer to "audit opinions". To be consistent with terminology in Proposed Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*, the term "auditor's opinions" should be used.

A16 refers to 'proposed International Standard on Assurance Engagements (ISAE) 3402'. The wording and associated footnote will need to be updated with the appropriate Australian reference before the proposed standard ASA 402 is finalised."