

15 December 2008

Ms M Kelsall
Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Dear Ms Kelsall

**ED 20/08 PROPOSED AUDITING STANDARD ASA 550 *RELATED PARTIES*
(REVISED AND REDRAFTED) (RE-ISSUANCE OF ASA 550)**

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 members of ACAG support the proposed Auditing Standard.

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

Yours sincerely



Frank McGuinness
Chairman
ACAG Financial Reporting and Auditing Committee

ATTACHMENT: ACAG COMMENTS ON PROPOSED AUDITING STANDARD

ASA 550 – RELATED PARTIES (REVISED AND REDRAFTED) (RE-ISSUANCE OF ASA 550)

ACAG has reviewed the Proposed Revised and Redrafted ASA and has provided responses to the questions indicated. We have also included other comments on the Proposed ASA.

Matters on which Particular Comment is Sought

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

The definition of related parties in the *Corporations Act 2001* includes entities controlled by other related parties, for example, director related entities. The definition in paragraph 10 of the Exposure Draft is silent on these types of related parties.

Other than this, we believe applicable laws and regulations are appropriately addressed.

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

None noted.

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?*

None noted.

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?*

A number of the changes:

- specify requirements that were previously implied under Extant ASA 550 and other existing Auditing Standards; and/or
- update terminology to be consistent with other Revised and Redrafted ASAs and legislation.

We believe these types of changes are not a significant cost to auditors or the business community.

There are new requirements and elevation of previous guidance that may result in additional costs to auditors and the business community. However, the proposed standard places the emphasis on significant related party transactions that are outside the normal course of business. This focussed approach could partly offset some of the additional costs to perform appropriate audit procedures.

The additional costs to auditors would include, but not limited to, updating of audit methodologies, training manuals and documentation to comply with the updated requirements. Training of staff would also be required. The impact on individual firms would depend upon their size and sophistication of their audit practice manuals and other supporting material.

We believe the structure of the revised and redrafted ASA 550 is an improvement. The standard is prescriptive on how auditors shall respond to risks of material misstatement associated with related party relationships and transactions. Aspects of these requirements are either included in the guidance or implied in the Extant ASA 550. However, as the nature of these relationships and transactions can give rise to higher audit risk, pronouncements that help to address these risks should be beneficial to auditors. This should lead to a better, more effective audit.

We note there are potential costs to be borne by the business community, given changes brought by the redrafted standard. These costs include the need for auditees to become acquainted with the many new and changed procedures that auditors will undertake, understanding the changes to communications they receive and changes to the management representations.

We believe the operative date, periods commencing on or after January 2010, will give adequate time for auditors to implement the changes required.

Continuous improved standards of auditing are in the public interest so we do not believe the additional costs would outweigh the benefits.

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

None noted

Other Matters

Definitions – Paragraph 10

The definition of related party is not as broad as the definition under *Corporations Act 2001*. There is a risk that the auditors may not address some significant related party relationships and transactions due to the narrowing of the definition.