

15 April 2009

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

Via email to: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

Dear Ms Kelsall

### **Exposure Drafts (EDs)**

- 01/09: Proposed Auditing Standard ASA 500 *Audit Evidence***
- 02/09: Proposed Auditing Standard ASA 501 *Audit Evidence – Specific Considerations for Selected Items***
- 03/09: Proposed Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report***
- 04/09: Proposed Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report***
- 05/09: Proposed Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report***
- 06/09: Proposed Auditing Standard ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks***
- 07/09: Proposed Auditing Standard ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement***
- 08/09: Proposed Auditing Standard ASA 810 *Engagements to report on Summary Financial Statements***

### **Other**

#### **Explanatory Guide: Auditors’ Reports**

Thank you for the opportunity to comment on these eight AUASB Exposure Drafts, and the draft “Explanatory Guide: Auditors’ Reports”. CPA Australia, The Institute of Chartered Accountants and the National Institute of Accountants (the Joint Accounting Bodies) have considered them and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

This letter is a response to all eight exposure drafts and the Explanatory Guide. Remarks should be taken as applying to all of the draft standards except where an issue is unique to a specific standard.

### **General Comments**

In undertaking its *Clarity* project, the AUASB stated that the International Auditing Standards (ISAs) are being used as the underlying standards for redrafting and revising Australian standards. Furthermore, the Board indicated that it will amend standards only when one of three substantive reasons exists, namely where: (i) the standard must address Australian legal and/or regulatory requirements; (ii) the standard must comply with Australian legislative instrument requirements; and (iii) the standard needs to address “additional public interests” matters.

**Representatives of the Australian Accounting Profession**



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The Institute of  
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in Australia

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We note that in the current eight exposure drafts, several paragraphs have been deleted by the AUASB (e.g., Paragraphs 9 to 12, and A17 to A25 of ED 02/09 [ASA 501], Paragraph 14(e) of ED 08/09 [ASA 810]). It appears that the deletions have been made for the third substantive reason noted above; however, it is not clear that this is the case. We believe that the deletion of paragraphs by the AUASB has the potential for questions to be raised about the compliance of ASAs with ISAs, especially where the reasons for the deletions appear to be for other than legal and regulatory reasons.

Therefore, we encourage the AUASB to reconsider the deletions made from these exposure drafts. While we recognise that the deleted paragraphs (or similar wording) are likely to be included in other standards or other paragraphs, we believe that rather than delete paragraphs, the AUASB can achieve its objectives by adding "Aus" paragraphs, or issuing guidance statements, as required. Furthermore, we believe that the AUASB can achieve greater public accountability and transparency (in the public interest) if it was to provide explanations for decisions it makes in this regard. Finally, the issue of "Bases for Conclusions", (e.g., as provided by the IAASB, and the AASB and APESB in Australia) to explain decisions made in the redrafting and revising process when the exposure drafts are finally approved by the Board, assist organisations making submissions to determine how the various comments and suggestions made have been addressed. They are also of some value in understanding the views of the Board and the standards themselves.

### **Specific Questions**

We offer the following comments on the questions posed in the EDs.

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

We believe applicable laws and regulations have been appropriately addressed.

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

We are not aware of any such omissions.

#### **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 are not aware of any such situations.

#### **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?**

Across the eight EDs there are over 115 new or elevated requirements with which auditors must comply. Potentially, this may increase costs for auditors and the business community. Our views on this matter are expressed in our previous submission on Exposure Drafts provided to the Board in our letter of 17 October 2008.

#### **Are there any other significant public interest matters that constituents may wish to raise?**

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

### **Other Matters**

There are several other matters to which we wish to draw the Board's attention.

#### **ED 01/09 (Proposed ASA 500 *Audit Evidence*)**

No comments

#### **ED 02/09 (Proposed ASA 501 *Audit Evidence – Specific Considerations for Selected Items*)**

## **Paragraphs 9 – 12 and A17 – 25**

As noted in our General Comments, we believe that the compliance of ASAs with ISAs may be questioned when these paragraphs are deleted by the Board, notwithstanding the reference to *ASA 508 Litigation and Claims*. The implication of the deletions is that the wording of ASA 508 will differ from that which appears in ISA 501, hence the question over compliance with ISAs. If the wording of these deleted paragraphs is to be retained in ASA 508, then the purpose of a separate standard ceases to exist. Any additional requirements considered necessary, and in the public interest, can be included in ASA 501 as “Aus” paragraphs. Any additional explanatory material or guidance can also be included in “Aus” paragraphs in ASA 501, or in a separately issued guidance statement.

Again, we encourage the AUASB to reconsider the deletions made from this exposure draft.

## **ED 03/09 (Proposed ASA 700 *Forming an Opinion and Reporting on a Financial Report*)**

### **Paragraphs 18 and 19**

In both of these paragraphs there is a requirement for an auditor to discuss matters with “management”. We suggest that this reference be expanded to include those charged with governance; that is, to read “management and/or those charged with governance”.

### **Paragraphs Aus 37.1 and Aus A33.2**

The requirement paragraph, Aus 37.1, discusses action to be taken by the auditor when the auditor agrees with “the entity’s statement of compliance” with IFRS. We suggest amending the wording of this paragraph to indicate that the statement of compliance is prepared by those charged with governance. This amendment would ensure consistency between the wording of this paragraph and the related Application and Other Explanatory Material paragraph, Aus A33.2.

### **Paragraph A7**

In the Australian regulatory environment, qualifying or limiting language (as described in the example provided in the first sentence of this paragraph) is prohibited when preparing a financial report in accordance with Australian Accounting Standards (this requirement is in paragraph 16 of AASB 101 *Presentation of Financial Statements*). We suggest the inclusion of a footnote to this paragraph, or additional Australian guidance, to highlight this matter

### **Paragraph A11**

In the Australian regulatory environment, management (those charged with governance) is prevented from departing from a requirement in the reporting framework (as stated in the last part of the second sentence of this paragraph), when preparing a financial report in accordance with Australian Accounting Standards. We suggest the inclusion of a footnote to this paragraph, or additional Australian guidance, to highlight this matter.

### **Paragraphs A34 – A36**

In the Australian regulatory environment, the auditor conducting a *Corporations Act 2001* audit provides an opinion on the Remuneration Report contained in the annual Directors’ Report. This is an example of an “Other Reporting Requirement” as described in these paragraphs. We suggest that a footnote reference be made to s 308(3C) of the *Corporations Act 2001* and to the AUASB’s Guidance Statement GS 008.

### **Paragraph A42**

The third sentence of this paragraph notes that when an audit is conducted in accordance with Australian Auditing Standards, credibility in the global marketplace is promoted. The sentence refers to Paragraph 4, which notes that Australian Auditing Standards use International Auditing Standards (ISAs) as the underlying auditing standards. Paragraph A42 does include this reference to ISAs, which we believe is important when discussing the promotion of credibility in a global marketplace. We suggest that reference to ISAs be included in Paragraph A42, in order to be consistent with the wording of Paragraph 4.

## Appendix 1

- The wording ‘financial report is prepared for a general purpose’ which is used to describe the circumstances for each illustration is inconsistent with wording used in other exposure drafts and should be revised. We suggest that the following wording (included in ED 04/09 [ASA 705]) be used: “Audit of a general purpose financial report prepared by management .....
- The “statement of compliance with International Financial Reporting Standards (IFRSs)” has only been included in the illustrations that relate to *Corporations Act* audits. However, the statement of compliance is a requirement of AASB 101 and therefore applies to all general purpose financial reports prepared in accordance with Australian Accounting Standards. We therefore recommend that each illustration in the exposure draft state that the financial report includes a statement of compliance with IFRSs (given that they are all general purpose financial reports), and the audit reports be updated accordingly.

### ED 04/09 (Proposed ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report*)

#### Paragraph 19(a)

This paragraph requires the auditor to take action where a material misstatement relating to non-disclosure of information is discovered. This action includes “discussing” the matter with those charged with governance, but does not require that the auditor request that the disclosure be made. We believe that action by the auditor, beyond mere discussion, would be appropriate in such circumstances. Therefore, we suggest that an “Aus” paragraph be included which requires the auditor to make a request of management and/or those charged with governance to include the disclosure of information. Furthermore, we suggest that a footnote reference be made to s 311 of the *Corporations Act 2001*. S 311 indicates that for audits undertaken under the Act, there is an obligation placed on the auditor to report to ASIC, if a material misstatement relating to non-disclosure of information is discovered, but not subsequently rectified.

#### Paragraph A15

The word “legal” is repeated in this paragraph. The words “or legal”, following “regulatory” should be removed.

## Appendix 1

We suggest that the appendix should include an example of an independent auditor’s report to illustrate the application of Aus 15.1, with respect to a conflict between applicable financial reporting frameworks.

### ED 05/09 (Proposed ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*)

#### Paragraph 7(d)

This paragraph 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. In relation to other matter paragraphs however, there is no equivalent principle. We recommend that an equivalent principle be included and that the IAASB is made aware of this matter.

### ED 06/09 (Proposed ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*)

#### Paragraph Aus A1.1

This paragraph does not read well and could be misinterpreted to mean that non-reporting entities that do not have users under the *Corporations Act 2001* have the option to prepare their special purpose financial reports in accordance with any of the Australian Accounting Standards. We suggest that the wording of this paragraph be amended to read: “In Australia, some “non-reporting entities” may be required to prepare a special purpose financial report based on ASIC Regulatory Guide 85 *Reporting Requirements for non-reporting entities*. ”

#### **Paragraph A4**

The wording of this paragraph lacks clarity. It suggests that the auditor is able to determine that a financial report is a special purpose financial report, even when it is not considered to be such by the preparers of the report. It appears that the intent of the paragraph is to alert the auditor to the fact that even when preparers indicate that they have prepared a special purpose financial report, and the audit report describes the purpose and intended users of the report, the financial report (and therefore the audit report) may have wide distribution (beyond the intended user group). Revised wording should be considered. However, we understand that this issue arises as a result of the way in which the ISA is worded, and therefore suggest that this comment be passed onto the IAASB.

#### **Paragraph A9**

We note that the ISA equivalent to this paragraph and paragraph A5 in the ISA equivalent to ED 07/09 [ASA 805] are essentially the same. In relation to the last sentence of these paragraphs it appears that A9 of ED 06/09 [ASA 800] is essentially the same as the ISA equivalent but A5 of ED 07/09 [ASA 805] is substantially different from the ISA equivalent paragraph. We believe that the wording of paragraph A5 of ED 07/09 [ASA 805] is superior and should be applied to paragraph A9 of ED 06/09 [ASA 800].

### **ED 07/09 (Proposed ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*)**

#### **Paragraphs 16 and 17**

To assist readers of this standard, we suggest that point (c) of Paragraph 16 makes reference to Paragraph 17. Paragraph 17 provides an explanation of Paragraph 16, by giving an example of what constitutes a “major portion” of a financial report.

#### **Paragraph A6**

We suggest that a footnote be added to the final sentence of this paragraph, showing references to other standards which provide examples of other types of engagements, deemed to be potentially more practicable.

### **ED 08/09 (Proposed ASA 810 *Engagements to report on Summary Financial Statements*)**

#### **Paragraphs 14(e) and Aus 14.1**

We believe that the Board should not be deleting paragraphs from ISAs, other than in complying with the drafting policies outlined in the Board’s “Drafting Policies and Rules” paper, issued in November 2008 (refer our earlier discussion under “General Comments”). It appears that Paragraph 14(e) has been deleted and Paragraph 14.1 included, primarily to add the final clause pertaining to compliance with “relevant ethical requirements relating to audit engagements”. We suggest that Paragraph 14(e) be retained as per the wording of the ISA, and that Paragraph Aus 14.1 be amended to make reference only to compliance relevant ethical requirements.

### **Explanatory Guide: Auditors’ Reports**

We commend the Board on the preparation of this explanatory guide, which we believe will provide valuable assistance to audit and assurance practitioners.

However, the status of a “concise financial report prepared under the *Corporations Act 2001*” is unclear. While the explanatory guide shows such a report as an example of summary financial statements (refer second paragraph of page 10, and the last table – ASA 810 – on page 18), the footnote to Paragraph 1 of ASA 810 states that “This Auditing Standard does not address the auditor’s report on a concise financial report prepared in accordance with .....and the *Corporations Act 2001*”. The Board should address this contradiction and clarify the status of a concise financial report for reporting purposes.

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



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