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Ms Trudy Wykes
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Dear Ms Wykes

Arrangements for an Asia Region Funds Passport – Compliance Audit Considerations

CPA Australia welcomes the opportunity to provide input to the Treasury in regard to the auditing arrangements proposed in the above Consultation Paper (CP). We have contained our comments to matters concerning the requirement that passport funds undergo an “annual compliance audit” as set out on pages 22 – 23 of the CP.

CPA Australia represents the diverse interests of more than 150,000 members in 121 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

The annual compliance audit opinion proposed would be considered a “reasonable assurance conclusion” under the applicable audit standards and a range of professional and ethical requirements would apply to the assurance practitioners providing these conclusions in what are commonly referred to as “compliance engagements”. In addition to specific practical matters associated with the proposal as described in the CP, we outline a number of important issues to be considered in setting the more detailed requirements and arrangements around these compliance engagements (**Q3.20**). Our response refers primarily to applicable international pronouncements and we have also commented on standards applicable in specific jurisdictions below.

The CP recognises the importance of independence in relation to the compliance engagements. The *Code of Ethics for Professional Accountants* (the Code) issued by the International Ethics Standards Board for Accountants includes strict requirements on assurance practitioners’ independence. In the context of passport funds, a threat to that independence may be created if the assurance practitioner performs any part of the work involved in compliance or reporting on compliance other than their opinion in accordance with assurance standards as detailed below.

We do not consider that an independence threat would necessarily arise from a compliance audit conducted by an “individual who is in charge of the audit of the passport fund’s financial statements”. We consider the Code as an appropriate internationally accepted pronouncement on independence of auditors and assurance practitioners.

The CP states that in some circumstances an independent oversight entity may conduct the compliance engagement with some exceptions provided to independence requirements. We recommend that in all cases, the compliance engagement should be conducted by a qualified assurance practitioner as defined jurisdictionally and that the Code and its independence requirements should apply in full. This is likely to preclude an independent oversight entity from performing a compliance engagement (**Q3.18**).

The applicable international standard for the assurance engagements is *ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000).

ISAE 3000 sets out the preconditions for an assurance engagement, which include:

- The underlying subject matter is appropriate;
- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

We note the proposed substantive requirements for passport funds in the CP, which we expect would largely comprise the criteria for the assurance engagements, are similar to those relating the financial services and managed investments in a number of markets. To avoid practical difficulties in the verification of compliance through assurance engagements, we would recommend to be mindful of the meanings of suitable criteria and appropriate subject matter in setting the more detailed requirements for passport funds.

Appropriate subject matter is described in ISAE 3000 as:

identifiable and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate

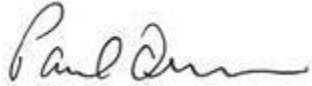
Matters for consideration in determining the suitability of criteria include relevance, completeness, reliability, neutrality and understandability.

We consider the proposed approach to determining standards applicable in each jurisdiction as appropriate (**Q3.21**). Most of the jurisdictions involved, including Australia, have adopted the standards issued by the International Auditing and Assurance Standards Board or equivalents to those standards.

We note that the CP states assurance practitioners would be required to provide their report to “the home regulator, and each host regulator”. It is normal practice for assurance practitioners to provide their report to the client entity that has engaged them who would then provide it as required to regulatory or other bodies. In some instances confidentiality requirements could conflict with a requirement for an assurance practitioner to provide reporting to third parties.

If you require further information on any of our views expressed in this submission, please contact Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul Drum". The signature is fluid and cursive, with a long horizontal stroke at the end.

**Paul Drum FCPA
Head of Policy**