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# AUASB Bulletin

# Audit Implications of the Consolidated Entity Disclosure Statement

ISSUED BY  
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government  
Auditing and Assurance Standards Board

# About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

For more information about the AUASB see the AUASB Website.

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## Background

As part of its broader reforms in relation to multinational tax, the Federal Government has made legislative changes to the *Corporations Act 2001* (the Act) to require all public companies (listed and unlisted, and regardless of their size) to include a 'consolidated entity disclosure statement' (CEDS) in their annual financial reports<sup>1</sup>. The changes are effective for annual reporting periods beginning on or after 1 July 2023 and so will apply for the first time at 30 June 2024.

The requirement does not apply to companies limited by guarantee that prepare financial reports under the *Australian Charities and Not-for-profits Commission Act 2012*.

Where accounting standards require the public company to prepare consolidated financial statements, the CEDS must include details of all entities that were part of the consolidated entity as at the end of the financial year, including names, ownership interests, place of incorporation or formation and, for foreign resident entities, tax residency. Where consolidated financial statements are not required to be prepared, the CEDS will only contain a statement to that effect.

The auditor's report must contain an opinion as to whether the financial report (including the CEDS and director's declaration) is in accordance with the Act (s307(a) of the Act).

## Responsibilities

The company, its directors and management are responsible for the preparation and content of the CEDS. They should have appropriate systems and processes to ensure completeness and accuracy of the CEDS.

The role of the auditor is to obtain independent assurance, form an opinion and report their opinion in the auditor's report.

## Reporting requirements

### Reporting where consolidated financial statements are required

Where a public company is required to prepare consolidated financial statements under accounting standards, the CEDS must include the following information about each entity that is part of the consolidated entity at the end of the financial year (s295(3A)(a) of the Act):

- The entity's name;
- Whether the entity is a body corporate, partnership or trust;
- Whether the entity was a trustee of a trust within the consolidated entity, a partner in a partnership within the consolidated entity, or a participant in a joint venture within the consolidated entity;
- Where the entity was incorporated or formed (if the entity is a body corporate);

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<sup>1</sup> See [Treasury Laws Amendment \(Making Multinationals Pay Their Fair Share—Integrity and Transparency\) Act 2024](#) which was given Royal Assent on 8 April 2024.

- Where the entity is a body corporate with share capital, the percentage of the entity's issued share capital held directly or indirectly, by the public company;
- Whether the entity was an Australian resident or a foreign resident within the meaning of the *Income Tax Assessment Act 1997*; and
- If the entity is a foreign resident, a list of each foreign jurisdiction in which the entity was a resident for the purposes of the law of the foreign jurisdiction.

The CEDS is a separate statement and does not form part of the notes to the financial statements (s295(1)(ba)). The CEDS cannot be combined with the note on controlled entities required by Australian accounting standards.

### ***Tax Residence***

Tax residence is a principle that is determined under the domestic tax rules of a country. It is relevant when considering how business income is taxed. The ATO has provided guidance on tax residency which can be found on their website at: [Australian Taxation Office](#).

We understand that entities that determine tax residency in good faith and in accordance with the Commissioner of Taxation's public guidance, may declare that the tax residency status of a subsidiary is true and correct for the purposes of the CEDS.

## **Reporting where consolidated financial statements are not required**

Where a public company is not required to prepare consolidated financial statements, the CEDS is only required to contain a statement to that effect (rather than including information about controlled entities).

### **True and correct**

The directors' declaration is required to include a statement about whether, in the directors' opinion, the CEDS is true and correct. For listed public companies, the chief executive officer and chief financial officer are required to include a statement in their declaration to the directors that the CEDS is true and correct (s295A(2)(ca)).

Paragraph 1.16 of the Explanatory Memorandum to the Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023 (the EM) says:

'As 'true and correct' is not defined in the legislation, the words take on their ordinary meaning in the context of the amendments. For the purposes of the consolidated entity disclosure statement, the policy intention is to ensure complete and accurate disclosures under subsection 295(3A).'

True and correct is a higher reporting requirement than would be the case under a true and fair view or fair presentation framework. Further, the materiality provisions in the accounting standards do not apply<sup>2</sup>. That is, all entities in the consolidated entity at year end must be disclosed with the information required by s295(3A) and cannot be excluded on the basis of materiality. Entities must be listed even if they are newly acquired 'shelf' companies, dormant or excluded from the company's process to prepare consolidated financial statements on the basis of materiality.

<sup>2</sup> See ASIC Information Sheet 284 *Consolidated Entity Disclosure Statement* (9 July 2024)

This Bulletin does not express a view on whether the CEDS for a public company that prepares consolidated financial statements is required to list controlled entities that are not consolidated because of the ‘investment entity exemption’ in Accounting Standard AASB 10 *Consolidated Financial Statements*. An investment entity is required to consolidate a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity’s investment activities.

The reporting requirement for a CEDS is intended to be a higher requirement than for the listing of material controlled entities in a note to the financial statements pursuant to accounting standards<sup>3</sup>. The CEDS is a tax transparency measure<sup>4</sup>. More information on the group structure in the public domain is intended to encourage companies with structures that minimise tax to reconsider their corporate tax structures<sup>5</sup>. The CEDS is not a part of the financial statements and notes<sup>6</sup> for which the primary users are investors, creditors, and potential investors and creditors.

## Audit requirements

### Qualitative materiality

Auditing standards require the auditor to obtain reasonable assurance that the financial report as a whole is free of material misstatement. The financial report includes the CEDS and the statement in the directors’ declaration about whether, in the directors’ opinion, the CEDS is true and correct.

The auditor should assess the CEDS disclosures on the basis of qualitative materiality given that the CEDS is a tax transparency measure. In doing so, the auditor should also consider ASIC Information Sheet 284 *Consolidated Entity Disclosure Statement*.

For example, the following disclosures in the CEDS would be qualitatively material given that the CEDS is a tax transparency measure:

- newly acquired ‘shelf’ companies and dormant companies; and
- the tax residency disclosures.

Similar to other disclosures in the financial report that are qualitatively material such as disclosures on director-related transactions, the level of assurance to be obtained by the auditor is reasonable assurance **not absolute assurance**. In applying qualitative materiality, the audit work effort is higher than would be the case if similar disclosures were not qualitatively material.

In obtaining reasonable assurance on tax residency, auditors should consider the section on tax residency on page 5 of this Bulletin.

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<sup>3</sup> See paragraphs 1.5 in *Chapter 1: Multinational tax transparency – disclosure of subsidiaries* in the [Explanatory Memorandum to the Treasury Laws Amendment \(Making Multinationals Pay Their Fair Share-Integrity and Transparency\) Bill 2023](#).

<sup>4</sup> See paragraphs 1.3 to 1.6 in *Chapter 1: Multinational tax transparency – disclosure of subsidiaries* in the [Explanatory Memorandum to the Treasury Laws Amendment \(Making Multinationals Pay Their Fair Share-Integrity and Transparency\) Bill 2023](#).

<sup>5</sup> See paragraph 1.5 in *Chapter 1: Multinational tax transparency – disclosure of subsidiaries* in the [Explanatory Memorandum to the Treasury Laws Amendment \(Making Multinationals Pay Their Fair Share-Integrity and Transparency\) Bill 2023](#).

<sup>6</sup> See s295(1) of the *Corporations Act 2001*.

## **Audit procedures – where consolidated financial statements are required**

Where a public company is required to prepare consolidated financial statements, the auditor applies professional judgement in determining the nature and extent of audit work on the CEDS, which may include:

1. Enhancing the auditor's understanding of the business and operations of the public company and other entities in the consolidated entity for the purposes of the disclosures required in the CEDS;
2. Applying knowledge from the audit of the financial statements and notes and the enhanced understanding of the business in identifying and assessing risks and performing work on the completeness and accuracy of the information disclosed;
3. Understand the control environment of the public company and those other entities in the consolidated entity that have significant operations or are known sub-holding companies for parts of the business and the processes used to identify entities in the consolidated entity;
4. Identify and assess the risks of misstatement in the CEDS, including with regard to matters such as:
  - a) the complexity and size of the businesses and operations of the consolidated entity and the locations in which it operates;
  - b) any concerns with the integrity of management; and
  - c) any past use of tax minimisation arrangements, particularly involving foreign controlled entities;
5. Plan the nature and extent of audit procedures including responses to identified risks;
6. Perform procedures to obtain reasonable assurance that the entities listed in the CEDS and the information disclosed for each entity at the end of the year is complete and accurate, such as:
  - a) Reviewing the processes and work undertaken within the consolidated entity to support the completeness and accuracy of the disclosures, and assessing whether controls to be relied upon by the auditor are appropriately designed, implemented and operating effectively;
  - b) Reviewing board minutes and papers to identify matters such as:
    - acquisitions or arrangements that may involve the creation of new controlled entities;
    - new operations in foreign jurisdictions; and
    - disposals or discontinuance of operations in foreign jurisdictions;
  - c) Other than for the first year in which a public company prepares a CEDS, obtaining audit evidence supporting the reasons why any entities disclosed in the CEDS as at the end of the previous financial year are no longer part of the consolidated entity at the end of the current financial year;
  - d) Checking completeness of the entities listed in the CEDS by reference to the entities in the company's consolidation records;



- e) Considering entities identified by the auditor or international affiliate firms for the purposes of independence and conflict checking;
- f) Reviewing the impact of business acquisitions during the financial year;
- g) Searching ASIC's company register for companies that might be controlled entities because they have similar names or common directors with the public company and other entities in the consolidated entity;
- h) Searching company registers in other jurisdictions in which the consolidated entity operates (based on the auditor's knowledge of the business and other procedures) for any controlled entities (where that is possible);
- i) Obtaining audit evidence necessary to assess the tax residency of entities in the consolidated entity in the jurisdictions where those entities are formed or carry on business such as where the management and control of the entity is located;
- j) Obtaining audit evidence on the completeness and accuracy of the other information required to be disclosed for entities in the consolidated entity;
- k) Obtaining written representations from directors and management on the completeness and accuracy of the information disclosed in the CEDS;
- l) Obtaining representations from the public company's solicitors and tax advisers;
- m) Specifically instructing component auditors, reviewing their work as appropriate and ensuring that any issues identified by component auditors have been properly resolved; and
- n) Where any audit work is performed on the completeness and accuracy of the CEDS prior to the end of the financial year, obtaining assurance as to the completeness and accuracy of the CEDS at the end of the financial year. This may include work to identify in connection business acquisitions immediately before year end.

### **Audit procedures – where consolidated financial statements are not required**

Where a public company is not required to prepare consolidated financial statements, the CEDS is only required to contain a statement to that effect. The auditor does not need to perform additional work to that which is required in the audit of the financial statements and the notes to the financial statements.

### **Auditor's report**

The auditor should consider whether the auditor's report for a listed public company should include a key audit matter paragraph in relation to the CEDS, particularly in the first year that the CEDS is presented.

The Appendix provides an example unmodified auditor's report for a company that prepares consolidated financial statements and has regard to the CEDs requirement. Similar wording would be used in an auditor's report for a company where the CEDS contains a statement that consolidated financial statements were not prepared.

Modified opinions should be prepared in accordance with *ASA 705 Modifications to the Opinion in the Independent Auditor's Report*.



## Appendix: Example Auditor's Report

### Example: Unmodified auditor's report (where consolidated financial statements are prepared)

INDEPENDENT AUDITOR'S REPORT

#### ***Report on the Audit of the Financial Report***

[Appropriate Addressee]

#### ***Opinion***

We have audited the financial report of ABC Company Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, the consolidated entity disclosure statement and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***Basis for Opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Key Audit Matters***

[Refer ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.]

[Note: Key audit matters are not required for unlisted public companies.]

### ***Other Information***

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 20X1, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of the Directors for the Financial Report***

The directors of the Company are responsible for the preparation of:

- a) the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- b) the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the directors determine is necessary to enable the preparation of:

- ii) the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- iii) the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

[A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.]

***Report on the Remuneration Report***

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature]

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]