



AUASB Agenda Paper

Title:	AUASB Bulletin – Audit Implications of the Consolidated Entity Disclosure Statement	Date:	10 July 2024
Office of the AUASB:	Doug Niven	Agenda Paper:	3.1

Objective of this Agenda Paper

1. The objective of this Agenda Item is to ascertain whether AUASB members have any fatal flaw comments on the draft Bulletin on the *Audit Implications of the Consolidated Entity Disclosure Statement* (CEDS) (Agenda Paper 3.4). The CEDS is required for public companies reporting under Chapter 2M of the *Corporations Act 2001* (Corps Act) from years ended 30 June 2024.

Question for AUASB members

Subject to the final ASIC guidance containing the same messages on materiality as appear in the draft guidance (see Agenda Paper 3.3), do AUASB members have any fatal flaw comments on the revised draft Bulletin – *Audit Implications of the Consolidated Entity Disclosure Statement* (Agenda Paper 3.4)?

Background

2. 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) to include a CEDS in their annual financial reports. The amendments were given Royal Assent on 8 April 2024.
3. There has been strong demand from audit firms (other than some larger firms) for urgent AUASB guidance on the audit implications of the CEDS. AUASB guidance will assist practitioners and support consistent audit approaches and reporting.
4. Further background can be found in agenda papers for the 13 and 20 June 2024 AUASB meetings.

Meetings with stakeholders and informal consultation

5. The Office of the AUASB met with the following parties on this matter:
 - (a) Revenue Group of Treasury (several meetings, calls and correspondence);
 - (b) ASIC (two meetings and correspondence); and
 - (c) The ATO and Corporate Tax Association (with Treasury).
6. There was no disagreement in any of these meetings that materiality did not apply to reporting of information in the CEDS or its audit.
7. We also met with the largest six firms, smaller firms, accounting bodies and others. The views expressed on materiality differed with some larger firms holding the view that materiality applies for both reporting or audit purposes. Others were generally of the view that materiality did not apply for either purpose.
8. The draft Bulletin was sent to a range of stakeholders for informal comment by COB Thursday, 6 June 2024. Consultation feedback was included in agenda papers for the AUASB meeting on 13 June 2024.

Meeting on 20 June 2024

9. At the AUASB meeting on 20 June 2024 (or in writing prior to the meeting), eleven of the twelve members of the AUASB expressed the following views:

(a) *Materiality for CEDS reporting*

The Bulletin should follow any future guidance issued by ASIC on the use of materiality for reporting purposes. Some larger audit firms hold the view that materiality can be applied in the CEDS based on an interpretation of the words ‘consolidated entity’ used in the legislation.

The Chair accepted the view that future guidance by a party such as ASIC should be followed on reporting materiality but noted:

- (i) That the CEDS is a tax transparency measure and the intent of the legislation as outlined in paragraphs 1.3 to 1.5 of the Explanatory Memorandum to the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share—Integrity and Transparency) Bill 2023* (Explanatory Memorandum) would be consistent with no materiality; and
- (ii) There are unintended consequences of the view of some larger audit firms that materiality applies to reporting information in the CEDS. For example, many small proprietary companies controlled by foreign companies may be required to prepare and lodge financial reports for the first time.

(b) *Application of reporting materiality by the auditor*

That the auditor must apply materiality under the auditing or assurance standards, even if no materiality applies for the directors, CEO and CFO. Reasons given by members in the meeting were:

- (i) This would be consistent with one possible interpretation of a paragraph in the Explanatory Memorandum;
- (ii) The auditor could consider whether a CEDS that was prepared without regard to materiality was materially misstated; and
- (iii) Reasonable assurance requires application of financial reporting materiality.

The Chair was of the view that the auditor should not apply materiality if that did not exist for reporting in the CEDS on the basis that:

- (i) The auditing standards were not designed with the CEDS in mind but were designed for the financial statements and notes thereto;
- (ii) The auditing standards would be legally invalid to the extent of any inconsistency with the Act; and
- (iii) Materiality is not part of the term ‘reasonable assurance’. The objective of the audit of the financial report is to obtain reasonable assurance that the financial report as a whole is free of material misstatement.

Publications by Minister and ASIC

10. The following documents state that materiality **does not apply** for reporting of the CEDS or its audit:

- (a) Media Release from the Hon Andrew Leigh MP Assistant Minister for Competition, Charities and Treasury, Assistant Minister for Employment *A Fairer and More Transparent Tax System* (5 July 2024) (Agenda Paper 3.2); and
- (b) Draft Guidance from ASIC, which may be released in the week commencing 8 July 2024 (Agenda Paper 3.3).

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11. The draft Bulletin has been revised as marked to include references to the above (see Agenda Paper 3.4).
12. If the AUASB were to come to a different view to the Minister and ASIC, or if different practice were to emerge, it is possible that legislative amendments would be made to remove any doubt that materiality cannot be applied for reporting or audit purposes.

Precedent considerations for sustainability assurance

13. A view that materiality applies to the audit of the CEDS but not to reporting of the CEDS could have unintended consequences for sustainability assurance.
14. For sustainability, the auditor's materiality can be much lower than that used by the audited entity because:
 - (a) The entity's materiality has regard to the financial report and sustainability information together (paragraph 18 of ISSB S1 and draft AASB ASRS 1); but
 - (b) The auditor's reporting materiality has regard to the sustainability information alone (paragraph 15 of proposed ISSA 5000).
15. The practical implications might include:
 - (a) A higher audit cost than if a lower reporting materiality is applied by the auditor; and
 - (b) The entity's sustainability report may comply with the reporting standards but the auditor could have an issue with the records and reporting based on a lower materiality. In theory, this could lead to a modified assurance opinion.
16. We have raised this matter with IAASB staff. Given staff absences over the northern summer holiday period, they are unable to provide a response at this time. ISSA 5000 may not be amended if the different materialities for sustainability reporting and assurance are intentional.
17. Table 1 below illustrates why a decision to applying materiality for the CEDs audit could create a precedent that prevents the AUASB from aligning sustainability audit materiality with reporting materiality.

Table 1: Reasons for aligning materiality for auditors with materiality for preparers

No.	Reason for aligning	CEDs	Sustainability
1	Assurance standard invalid to extent of Inconsistency with requirement of <i>Corporations Act 2001</i>	Yes	No
2	Subordinate legislation cannot override primary legislation	Yes	No
3	Absence of precedent on alignment	Yes	No (if AUASB decides different materialities apply for CEDs reporting and audit)
4	Audit/assurance standards not designed for this type of reporting	Yes	Unknown
5	Consistent with Minister's statement and ASIC guidance	Yes	No

Reasonable assurance

18. The draft Bulletin suggests that reasonable assurance applies for the CEDS because it is an 'audit'. While more audit work may be required than if materiality and true and fair view also applied, modified opinions would only be required in certain circumstances. While this seems a supportable and practical approach, some stakeholders remain of the view that the legislation requires absolute

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assurance and so the auditor should always give a modified opinion on an inherent limitation of scope.

Other materials presented

Agenda Paper	Description
3.2	Media Release from the Hon Andrew Leigh MP Assistant Minister for Competition, Charities and Treasury, Assistant Minister for Employment <i>A fairer and more transparent tax system</i> (5 July 2024)
3.3	Draft Guidance from ASIC
3.4	Draft AUASB Bulletin <i>Audit Implications of the Consolidated Entity Disclosure Statement</i>

5 July 2024

A fairer and more transparent tax system

The Albanese Government continues to deliver on our commitment to increase tax transparency and ensure multinationals pay their fair share in tax. From next week, Australians will start to see how public companies structure their subsidiaries, including for tax purposes.

As part of the Australian Government's focus on tax integrity and transparency, all public companies (that is, companies which are open to investment by the public) are now required to include a 'consolidated entity disclosure statement' in their annual financial reports.

This new requirement is effective for annual reporting periods beginning on or after 1 July 2023 and so will apply for the first time from 30 June 2024.

As a tax transparency measure, this new statement will hold companies to account, particularly large corporate groups, on their corporate structure and whether they are operating with opaque or atypical tax arrangements.

It does this by requiring public companies (listed and unlisted) to disclose all their subsidiaries, regardless of size or materiality.

The reporting and audit requirements for this new consolidated entity disclosure statement are purposefully intended to apply a higher standard than for the listing of material entities in a company's financial statements (which will still apply for the other elements of the annual report in line with current accounting and auditing standards). Similarly, auditors are also expected to provide their views without regard to materiality.

This acknowledges that the consolidated entity disclosure statement is a separate part of a company's financial report and is intended to shine a light on company structures, the number of subsidiaries and where they are located.

This statement will include information such as: the names of each entity; whether the entity was a body corporate, partnership or trust; if the entity is a body corporate, the public company's percentage of ownership; and the tax residency of each of the entities.

As company reporting dates near, the Australian Securities and Investments Commission and the Auditing and Assurance Standards Board will consider if public guidance is required.

Entities will be able to determine tax residency in accordance with the Commissioner of Taxation's existing public guidance. Entities that apply this guidance in good faith may declare that the tax residency status of a subsidiary is true and correct for the purposes of the new consolidated entity disclosure statement.

This measure builds on Labor's strong track record of making Australia's tax system fairer and more transparent.



The Hon Dr Andrew Leigh
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Assistant Minister for
Competition, Charities and
Treasury, Assistant Minister
for Employment

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July 2024

AUASB Bulletin

Audit Implications of the Consolidated Entity Disclosure Statement

ISSUED BY
THE OFFICE OF THE 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. The Office of the Auditing and Assurance Standards Board provides technical and administrative services to the AUASB.

For more information about the AUASB see the AUASB Website.

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Draft

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 reports¹. 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 CEDS 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. They cannot not rely on the auditor.

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);

¹ 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 apply². 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'

² See Media Release from the Hon Andrew Leigh MP Assistant Minister for Competition, Charities and Treasury, Assistant Minister for Employment [A Fairer and More Transparent Tax System](#) (5 July 2024) and Guidance from ASIC [\[Hyperlink to final ASIC guidance to be added\]](#).

companies, dormant or excluded from the company's process to prepare consolidated financial statements on the basis of materiality.

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. The CEDS is a tax transparency measure. 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. The CEDS is not a part of the financial statements and notes for which the primary users are investors, creditors, and potential investors and creditors.

Audit requirements

Assurance level, etc

Paragraph 1.17 of the EM says:

'Further, as the consolidated entity disclosure statement forms part of an entity's annual financial report, it is also subject to the existing audit framework under the Corporations Act. Specifically, section 307 requires an auditor to form an opinion about whether the financial report (which includes the consolidated entity disclosure statement) is in accordance with the Corporations Act generally, as well as on specific matters. This general obligation is also consistent with the requirements of the auditor's report under section 308.'

The CEDS and the director's declaration are part of the annual financial report under s295(1) of the Act. They are not part of the financial statements and notes to the financial statements that the accounting standards and the auditing standards were developed to cover.

The objective of audit work in relation to a financial report under the auditing standards is to obtain reasonable assurance that the financial report as a whole is free of material misstatement. The CEDS is not subject to materiality and the auditor cannot apply materiality³.

Obtaining reasonable assurance in relation to the CEDS may be implicit in s307 of the Act which requires the auditor to form an opinion on whether the financial report (including the CEDS) complies with the Act. Paragraph 1.17 of the EM also says that the CEDS is 'subject to the existing audit framework under the Act'.

It follows that the objective of the audit work on the CEDS is to obtain reasonable assurance that the following are not misstated:

- The CEDS; and

³ See Media Release from the Hon Andrew Leigh MP Assistant Minister for Competition, Charities and Treasury, Assistant Minister for Employment [A Fairer and More Transparent Tax System](#) (5 July 2024) and Guidance from ASIC [\[Hyperlink to final ASIC guidance to be added\]](#).

- The opinion of the directors in the directors' declaration that the CEDS is true and correct.

The audit work effort is higher than would be the case if similar disclosures were required to be made in a note to the financial statements pursuant to accounting standards because:

- a) the CEDS is intended to encourage companies with structures that minimise tax to reconsider their corporate tax structures, whereas the primary users of the financial statements and notes are investors and creditors making decisions about the allocation of scarce resources;
- b) the disclosures are required whether they are material or not; and
- c) the true and correct criterion applies rather than a true and fair view or present fairly criterion.

While the AUASB could consider narrow scope amendments to the auditing standards consistent with the above, any such amendments would be unlikely to be available for the 30 June 2024 reporting season.

The AUASB cannot make auditing standards that are inconsistent with the requirements of the Act (s336 of the Act). That is, the auditing standards cannot reduce the obligations of auditors by replacing the true and correct criterion with materiality and true and fair view criteria.

Audit procedures – where consolidated financial statements are required

Where a public company is required to prepare consolidated financial statements, the auditor's work to obtain assurance that the CEDS is not misstated 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 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 confirming 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 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 may not need to modify their opinion where there are no significant inherent risks in connection with the completeness of information in the CEDS that are not adequately addressed by internal controls and there no significant limitations on scope affecting the adequacy of the audit procedures outlined above.

The auditor may need to modify their opinion due to significant inherent risks in connection with the completeness of information in the CEDS. A significant inherent limitation on scope may exist in relation to the completeness of the entities listed in the CEDS and completeness of the jurisdictions in which they are tax residents. Such significant limitations are more likely to arise where there is an inherent risk that is not adequately addressed by internal controls and the audit procedures above.

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 examples of an unmodified auditor's report and an auditor's report containing a modified opinion on the completeness of the information in the CEDS.

Appendix: Example Auditor's Reports

Example 1: Unmodified auditor's report (both where consolidated financial statements are prepared and where they are not 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 that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (other than the consolidated entity disclosure statement); 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 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:

- a) the financial report as a whole is free from material misstatement, whether due to fraud or error (other than the consolidated entity disclosure statement); and
- b) the consolidated entity disclosure statement is not misstated, 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]

Example 2: Modified auditor's report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report

Qualified 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report [*Use the preceding words for a Qualified Opinion where the modification arises from an inability to obtain sufficient appropriate audit evidence. The auditor may also need to consider and Adverse Opinion depending upon the significance of the matter or a Disclaimer of 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 Qualified Opinion

[Include appropriate text to describe the nature of, and reason for, the qualified opinion. This text should be specific to the circumstances.]

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 qualified 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 that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (other than the consolidated entity disclosure statement); 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 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:

- a) the financial report as a whole is free from material misstatement, whether due to fraud or error (other than the consolidated entity disclosure statement); and
- b) the consolidated entity disclosure statement is not misstated, 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]