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Basis for Conclusions

ASA 2025-1 Amendments to ASA 700 Forming an Opinion and Reporting on Financial Statements and ASA 260 Communication with Those Charged with Governance

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASA 2025-1 Amendments to ASA 700 Forming an Opinion and Reporting on Financial Statements and ASA 260 Communication with Those Charged with Governance

Basis for Conclusions ASA 2025-1 Amendments to ASA 700 Forming an Opinion and Reporting on Financial Statements and ASA 260 Communication with Those Charged with Governance has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 2025-1.

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BASIS FOR CONCLUSIONS

ASA 2025-1 Amendments to ASA 700 Forming an Opinion and Reporting on Financial Statements and ASA 260 Communication with Those Charged with Governance

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, *ASA 2025-1 Amendments to ASA 700 Forming an Opinion and Reporting on Financial Statements and ASA 260 Communication with Those Charged with Governance*, and is not a substitute for reading the Standard.

Background

1. The AUASB issued ASA 2025-1 to amend ASA 700 *Forming an Opinion and Reporting on Financial Statements* and ASA 260 *Communication with Those Charged with Governance* in connection with disclosure concerning the application of auditor independence requirements in audit reports following changes made by the Accounting Professional & Ethical Standards Board Limited to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) and communication to those charged with governance (TCWG) of an audited entity.
2. The Code is based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code). Consistent with the IESBA Code, the Code includes a requirement for auditors to publicly disclose how the independence requirements for Public Interest Entities (PIEs) and certain other entities have been applied. The International Auditing and Assurance Standards Board (IAASB) amended the international standard on which ASA 700 is based to require these disclosures in decided that the auditor's reports on financial reports of these entities.
3. The AUASB issued a 'wrap around' [Consultation Paper](#) on the IAASB's then proposed amendments to ISA 700 *Forming an Opinion and Reporting on Financial Statements* and ISA 260 *Communication with Those Charged with Governance* on 21 July 2022. The IAASB proposed that:
 - (a) The auditor's report be required to disclose the information on the application of ethical requirements applied for PIEs and certain other entities determined under the IESBA Code; and
 - (b) The auditor be required to communicate on application of independence requirements to TCWG of the relevant entity.

Scope

4. ASA 2025-1 amends ASA 700 and ASA 260 which apply to:
 - (a) an audit of a financial report for a financial year, or an audit or a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.

ASA 2025-1 is operative for financial reporting periods commencing on or after 15 December 2024.

Major Issues raised by Respondents on Exposure

5. The AUASB received written submissions from KPMG (Australia), Ernst & Young Global Limited, Institute of Public Accountants and Deloitte Touche Tohmatsu.
6. Having regard to feedback received, the AUASB's [written submission](#) to the IAASB did not support disclosure in the auditor's report, which would add to the size and complexity of the report. The AUASB suggested that voluntary disclosure be considered. If disclosures were to be required, the IAASB should consider a location in the auditor's report other than the 'Basis for Opinion' paragraph.

Reasons for issuing ASA 2025-1

7. The IAASB received overwhelming support from other stakeholders for its proposed changes and little concern that the changes would negatively impact the length, complexity and utility of the auditor's report. Accordingly, the IAASB approved the amendments to ISA 700 and ISA 260 in June 2023. The amendments included a new requirement in ISA 260 to communicate with TCWG about the application of independence requirements for all audits (previously only for audits of listed entities).
8. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality. In implementing the FRC's strategic direction, the AUASB has determined the following objectives¹:
 - (a) To adopt international auditing and assurance standards in Australia unless modifications are considered to be in the public interest and these do not conflict with, or result in lesser requirements to, the international standards; and
 - (b) To work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) towards the establishment of harmonised standards based on international standards.

Conclusion

9. Whilst the amendments approved by the IAASB are not fully aligned to the AUASB's submission, the AUASB considers that the matter is not significant enough for any further deliberations on the topic and that the IAASB's amendments are in public interest. The AUASB voted to approve and issue ASA 2025-1 on 28 January 2025.

* * *

¹ Refer to [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#).