Australian Government
Auditing and Assurance Standards Board

# Agenda

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| **Subject:** | **Agenda for the 87th meeting of the AUASB** |
| **Venue:** | **Ken Spencer Room**<br>**Auditing and Assurance Standards Board (AUASB) offices**<br>**Podium Level 14, 530 Collins Street Melbourne** |
| **Time:** | **Teleconference: Tuesday, 31 January 2017 from 2.00pm. to 4.00pm.** |

| **Time** | | **Agenda Item No.** |
|---|---|---|
| 2.00pm. | **1.** | **Preliminary Session** |
| 2.15pm | **2.** | **Auditor Reporting** |
| 3.30pm | **3.** | **International Update** |
| 3.45pm | **4.** | **Other Business** |
| 4.00pm. | ***Close*** | |

Observers are welcome to participate via teleconference. Please register your interest with Kathleen John at kjohn@aasb.gov.au and on receipt teleconference participant details will be provided.

# AUASB Board Meeting Summary Paper

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| **AGENDA ITEM NO.** | **2(a)** |
| **Meeting Date:** | 31 January 2017 |
| **Subject:** | ED 07-17 ASA 2016-2 Amendments to Australian Auditing Standards |
| **Date Prepared:** | 23 January 2017 |

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| X **Action Required** | **For Information Purposes Only** |

**Agenda Item Objectives**

AUASB to consider:

- Comments received and proposed disposition paper on ED 07-ASA 2016-2 Amendments to Australian Auditing Standards;
- NZAuASB's position on the ED.
- Approval to amend ASA 700 *Forming an Opinion and Reporting on a Financial Report* and ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

## 1. Background

Amendments to ASA 701 - Communicating KAMs for parent and consolidated financial reports and Stapled Security Group financial reports

Through the process of developing the Auditor Reporting FAQs, the Project Advisory Group raised the following Australian specific scenarios and requested the AUASB provide guidance on the application of ASA 701:

- Auditor's reports on the parent entity when included in financial reports containing consolidated and parent entity financial statements as allowed in CO 10/654; and
- Auditor's reports on stapled group financial reports.

The AUASB agreed these were complex issues which were not considered at the time of issuing ASA 701, and have arisen upon implementation. Also stapled securities are an Australian unique structure which needs to be considered further by the AUASB.

At its meeting on 29 November 2016 the AUASB approved issuing an exposure draft proposing to amend ASA 701 paragraph 5 (scope) to clarify that:

- For consolidated and parent entity financial statements key audit matters are communicated for the consolidated financial report as a whole.
- For a stapled security group the auditor determines and communicates key audit matters for the stapled group financial report.
- In both scenarios the auditor may elect to communicate KAMs for the parent entity or separate stapled issuer.



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Refer to 01-17_AI_2(a).2_KAMs_Parent_entity_and_stapled_security_groups for full details of this issue.

The proposed amendments to ASA 701 were issued as ED 07-16 on 22 December 2016. Refer to 01-17_AI_2(a).1_Disposition_paper_ED_ASA700_701 for details and disposition on the comments received.

Amendments to ASA 700

At its meeting on 13 September 2016 the AUASB approved amending ASA 700 to insert an Aus paragraph as a requirement as follows: "The auditor's report shall be dated as of the date the auditor signs that report".

The proposed amendments were included in ED 07-16 on 22 December 2016. Refer to 01-17_AI_2(a).1_Disposition_paper_ED_ASA700_701.

Communicating KAMs for audited Interim Financial Reports

The AUASB identified an inconsistency between ISA 701 and the ASA as follows:

- ISA 701 paragraph 5 (application paragraph) uses the term "complete set of general purpose financial statements"
- ASA 701 paragraph 5 (application paragraph) uses the term "general purpose financial reports"

This impacts the communication of KAMs on audited **condensed** Interim Financial Reports prepared under AASB 134, and was not considered at the time of issuing ASA 701. Refer to 01-17_AI_2(a).3_KAMs for half year financial reports for technical analysis.

To gather feedback from stakeholders on this matter the following question was included in ED 07-16.

> ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* paragraph 5, states that this Auditing Standard, applies to audits of **general purpose financial reports** of listed entities, while ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report,* applies to audits of **complete set of general purpose financial statements**. The impact of this difference, is that audited condensed Interim Financial Reports, fall within the scope of ASA 701 while they would not fall within the scope of ISA 701 as they do not constitute a complete set of general purpose financial statements.
>
> Based on the impact of this difference, should ASA 701 paragraph 5, and elsewhere as appropriate, be amended to apply to audits of **complete set of general purpose financial statements** to be consistent with ISA 701? The AUASB is looking for feedback on this matter from constituents.

Refer to 01-17AI_2(a).1 Disposition_paper ED_ASA700_701 for details and disposition of comments received.

## 2. Summary of comments received and proposed disposition

At the time of finalizing this paper two submissions are yet to be received. The submissions received to date are summarized in 01-17AI_2(a).1_Disposition_paper ED_ASA700_701. ASIC have indicated they will submit a confidential staff level comment letter, however this is yet to be received. However in preparation for the AUASB meeting next week Anne Waters met with Doug Niven to discuss his initial comments. This is included in the disposition paper.

This paper also considers the NZAuASB's technical staff views for AUASB consideration.

Amendments to ASA 701 - Communicating KAMs for parent and consolidated financial reports and Stapled Security Group financial reports

***Parent and consolidated financial reports***

All respondents to the ED were in favour of the amendments for parent and consolidated financial report and no detailed comments were received on this matter.

**NZAuASB** have not provided a comments letter on the ED, however technical staff have prepared a paper for consideration at their next board meeting on this matter. (note this paper has not been approved by the Board). In this paper the technical staff's view is that on a strict interpretation of the ISAs (NZ), KAMs should be communicated for parent entity if a complete financial statement is prepared (including a 4 column format) and to amend ISA (NZ) 701as detailed in the ED could be interpreted as being "ISA minus". They also consider that the ED is not consistent with the IAASB's FAQ.

The AUASB have previously concluded that ASA 701 strictly doesn't require KAMS for the parent entity as this is not a general purpose financial report. Furthermore there is no strict requirement for parent entity financial statements to be prepared and there was little benefit in communicating KAMs separately for the parent. Refer to board paper "01-17_AI 2(a).2 Reporting_KAMs_for _parent_and_group_and _stapled_groups_financial_reports" for full discussion and conclusions on this matter. Below also is an extract from the meeting paper prepared by AUASB technical staff (previously presented to the AUASB) addressing the IAASB's FAQ.

> "The IAASB's draft FAQs say that if in a 4 column financial report where consolidated and parent entity financial statements are included, the auditor communicates KAMs for each of the consolidated entity and the parent if the parent entity is considered a complete set of general purpose financial statements. As the parent entity under Australian legislation, is not a financial report, the recommendation below is not inconsistent with the IAASB's view".

This matter impacts having consistent Auditing Standards with NZ AuASB.

*Questions for the AUASB*

Does the AUASB still agree with the conclusions made in relation to consistency with the IAASB on this matter? Is this impacted if ASA 701 is amended to complete set of financial statements (as discussed further below)?

Is the AUASB comfortable in potentially having a different conclusion to in relation to this matter? Note that this has not been debated by the NZAuASB so the conclusions on these matters may change.

***Stapled security groups***

In summary all respondents were in favour of the amendments to ASA 701 except for one respondent. Refer to 01-17AI_2(a).1_Disposition_paper ED_ASA700_701 for details of the matter raised.

Also as detailed above NZAuASB technical staff have looked at whether to amend ISA (NZ) 701 for this matter. New Zealand has a very small number of listed stapled security groups (1 identified but there may be more), and approximately 10 non-listed groups. Note that some of the non-listed groups will be required to communicate KAMs as ISA (NZ) 701 is applicable for FMC regulated entities with high level of public accountability. The technical's staff recommendation is that ISA (NZ) 701 is not amended as detailed in ED07-16 and that KAMs are communicated for all general purpose financial reports of listed entities within the group.

*Questions for the AUASB to consider*

Is the AUASB comfortable potentially having a different conclusion to in relation to this matter? Note that this has not been debated by the NZAuASB so the conclusions on these matters may change.

Amendments to ASA 700

No comments were received in relation to this matter and all respondents were in favour of this amendment.

Communicating KAMs for audited Interim Financial Reports

In summary all respondents were in favour of amending ASA 701 for this matter except one respondent who does not support the amendment. Refer to 01-17AI_2(a).1 Disposition_paper ED_ASA700_701 which provides details of the comment received in relation to this. Also one respondent who agreed with the compelling reason to amend ASA 701 however had a comment on the terminology.

*Question for the AUASB to consider:*

Does the AUASB consider it appropriate to amend ASA 701 to be consistent with ISA 701?

If no, does the AUASB consider there is a compelling reason for this difference?

If yes does the AUASB approve to amend ASA 701 paragraph 5 as follows:

"This Auditing Standard applies to audits of **complete sets of general purpose financial statements** of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report".

Or use the terminology included in CPA's submission. Refer to 01-17AI_2(a).1_Disposition_paper ED_ASA700_701

**AUASB Technical Group Recommendations**

The AUASB Technical Group recommend to the AUASB:

- to amend ASA 700 as detailed in ED 07-16.
- to amend ASA 701 to address the issue in relation to Interim Financial Reports after consideration of the comment on the terminology.

As not all comment letters have been received in relation to the amendment to ASA 701 in relation to parent entity and stapled security groups a recommendation has not been included.

**Material Presented**

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| Agenda Item 2 (a) | AUASB Board Meeting Summary Paper |
| | 01-17_AI_2(a).1_Disposition_paper_ED_ASA700_701[**Board-Only**]. |
| | 01-17_AI_2(a).2_KAMs_Parent_entity_and_stapled_security_groups |
| | 01-17_AI_2(a).3_KAMs for half year financial reports |
| | 01-17_AI_2(a).4_ED_07-16_ASA_2016-2 |
| | 01-17_AI_2(a).5_IAASB_FAQ's |
| | 01-17_AI_2(a).6_ED07-16_Submissions_1-6[**Board-Only]**: |
| | Sub 1 KPMG submission |
| | Sub 2 Deloitte submission |
| | Sub 3 PWC submission |
| | Sub 4 CPA submission |
| | Sub 5 APRA submission |
| | Sub 6 CAANZ submission |

# Application of ASA 701 for stapled security groups and parent entity financial reports

## Introduction and background

ASA 701 as issued requires key audit matters (KAMs) to be communicated in the auditor's report of general purpose financial reports of listed entities. This is based on ISA 701.

Through the process of developing the Auditor Reporting FAQs, the Project Advisory Group raised the following Australian specific scenarios and requested the AUASB provide guidance on the application of ASA 701:

- Auditor's reports on the parent entity when included in financial reports containing consolidated and parent entity financial statements as allowed in CO 10/654; and
- Auditor's reports on stapled group financial reports.

The AUASB agreed these were complex issues which were not considered at the time of issuing ASA 701, and have arisen upon implementation. Also stapled securities are an Australian unique structure which needs to be considered further by the AUASB.

It was agreed that a sub-set of the AUASB comprising the practioner members would consider the issues in more depth, and that consultation was required with the AASB, ASIC and APRA.

## Purpose of document and action required by the AUASB

This document summarises the issue, the relevant technical background and the position and recommendation of the AUASB sub-committee, for consideration by the AUASB.

1. **<u>Parent entity financial statements presented using a 4 column approach</u>**

<u>Background</u>

- The purpose of communicating KAMs is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed, and to provide additional information to intended users. Does communicating KAMs for parent entity presented with the consolidated financial report achieve this?
- ASA 701 requires communication of KAMs for general purpose financial report of listed entities.
- Corporations Act s 295 defines financial report as the financial statements with notes, plus the directors declaration. Corporations Act s. 295 (2) defines the financial statements as those required by the Australian Accounting Standards, which in this scenario is the consolidated entity.
- The Australian Accounting Standards and the Corporations Act requires groups to present consolidated financial reports under Chapter 2M, and prevents them from also presenting parent entity financial statements within the same financial report. Parent entity historical financial information is provided by way of note within the consolidated/group financial report.
- However CO 10/654 allows the inclusion of full parent entity financial statements and related notes, in the consolidated financial report ( ie. presented the way of traditional 4 column) and the directors' declaration and auditor's report must include the relevant opinions in relation to the parent entity financial statements and related notes.
- Doug Niven (ASIC) considers the consolidated financial statements and the parent entity financial statements to be one financial report and not two, and therefore the parent entity financial statements presented in a 4 column financial report is not within the scope of ASA 701.
- It is the AUASB's sub-committee view that KAMs are required for the Financial Report as a whole and there is no requirement to report KAMs for the parent entity financial statements. In the auditor's judgment if a matter in the parent is of most significance to the audit of the financial report as a whole, it is reported as a KAM however if there is not a matter of most significance in

the parent to the group financial report as a whole, there is no requirement to report KAMs for the parent.

- This class order is mainly used by AFSL licensees and other APRA regulated entities.
- AFSL entities are required to lodge with ASIC audited balance sheet and profit and loss statement under Chapter 7 s. 989B of the Corporations Act. In practice they use their 4 column financial report to satisfy this requirement. Doug Niven agrees with the position of no communication of KAMs for the parent.
- Merran Kelsall and Anne Waters consulted with APRA (Brandon Khoo) who confirmed they agree that reporting KAMs at the consolidated financial report level is appropriate and they do not expect KAMs to be separately identified at the parent level materiality. If there is a matter in the parent which is of most significance to the group financial report as a whole, it should be reported as a KAM and detail that it relates to the parent entity.
- The IAASB's draft FAQs say that if in a 4 column financial report where consolidated and parent entity financial statements are included, the auditor communicates KAMs for each of the consolidated entity and the parent if the parent entity is considered a complete set of general purpose financial statements. As the parent entity under Australian legislation, is not a financial report, the recommendation below is not inconsistent with the IAASB's view.

<u>Position and recommendation of the AUASB sub-committee</u>

- Most 4 column financial reports are being prepared to satisfy AFSL or APRA regulations and there are limited other users of the parent entity in a 4 column financial report (Other than APRA and ASIC).
- The purpose of communicating KAMs is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed, and to provide additional information to intended users. Users focus on the group financial report, and not the parent, and accordingly the KAMs should be identified at the group level as this enhances the communicative value of the auditor's report.
- In most instances it is expected there will be no significant matters in the parent relative to the group financial report as a whole, and if the auditor is required to communicate KAMs for the parent, relative to the financial statements of the parent, this will reduce the communicative benefit of reporting KAMs, and may be confusing for users.
- Auditor uses professional judgement when determining whether to communicate a KAM for each parent entity.
- The scope of ASA 701 is correct, however further specific guidance is required to address these parent entity scenarios as follows:
    - When financial reports include the consolidated financial statements and full parent entity financial statements including notes, as allowed by CO10/654 or equivalent, KAMs are communicated for the financial report as a whole.
    - The auditor uses professional judgement when determining whether to communicate a KAM for exclusive relevance to the parent entity.

<u>For consideration and approval by the AUASB</u>

- Do you agree with the recommendation by the sub-committee?
- If yes, the options to provide this clarification are either through amending ASA 701 or issuing via the Frequently Asked Questions.
    - There are a few options in amending ASA 701;
        - by including additional information in the scope paragraphs as follows:

          AUS 5.1 When financial reports include the consolidated financial statements and full parent entity financial statements including notes, as allowed by CO 10/654 or equivalent, KAMs are communicated for the financial report as a whole. The auditor uses professional judgement based on the criteria in ASA 701 paragraphs 9 and 10 and considering the intended users, when determining whether to communicate a KAM for exclusive relevance to the parent entity.

OR

- Add a section to the requirements called "communicating KAMs when more than one set financial statements are presented within one report". The paragraph above would be included as a requirement and any other scenarios considered appropriate.

OR

- Add to application material.

- Communicate via FAQs would also be appropriate.

ASA 701 as issued is not incorrect, however the above amendment would provide clarification. The benefits of amending ASA 701 need to be considered against the cost involved. However if the AUASB conclude ASA 701 needs to be amended for stapled securities, it makes sense to amend for above.

## 2. Stapled Group entities

Background

- A listed entity is defined in the Australian Auditing Standards[1] as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body. A recognised stock exchange includes those in Australia (including ASX/NSX/CHI-X) or in another jurisdiction.

- A stapled entity is an arrangement whereby a legal entity (typically a company) has issued equity instruments that are "stapled" to the equity instruments of another legal entity or entities "stapled issuer" (typically a trust). They are separate listed securities that are contractually bound to form a single salable group ie they cannot be bought or sold separately.

- Whilst there are a few stapled securities internationally, Australian is unique in permitting the use of stapled securities, which are mainly for tax reasons. There are around 45 – 50 stapled security groups in Australia.

- Stapled securities are separate listed securities and are required to prepare separate general purpose financial reports under the Corporations Act and have these audited.

- One of the entities in a stapling arrangement is identified as the parent entity and prepares consolidated or combined financial reports covering the whole of the stapled group including the stapled issuer. However each individual stapled issuer is also required to prepare a financial report.

- The stapled issuers either issue a completely separate financial report, or use CO 15/838 which allows the financial statements of stapled issuers to be presented in an adjacent column beside the financial statements for the stapled group. However note that the class order was issued in 2015 and there is certain criteria which needs to be met to use this. This class order isn't used by all Stapled security groups.

- Doug Niven (in discussion with AUASB) considers that the financial report of the issuer and the group are both complete and separate financial reports, regardless of whether they are prepared using the relief under CO 2015/838 or presented separately. Separate legal advice on the relevant literature has not been obtained by AUASB.

- CO 2015 / 838 was released as it is often useful for users of Stapled Groups if all of the financial reports are presented in a single document.

- Under CO 2015 / 838 the auditor's report covers both the group and the individual issuers.

Consultation with Doug Niven – ASIC

Merran Kelsall and Anne Waters met with Doug Niven 17/11 to discuss whether in his view, there are separate users of the stapled issuer or whether in his view users focus on the group, and more broadly on whether KAMs should be identified. His view:

- There may be users of the stapled group and the separate issuer's financial report. Users aren't just investors, there are also creditors, employees.

- Financial Reports are required for both the group and issuer.

- Legally separate Audit Reports are required. We discussed that in practice the auditor's are combining opinions into a single auditor's report.

- Therefore he thinks it is appropriate to identify and apply 701 for each financial report ie. identify KAMs at each entity's materiality.

- The one Audit Report lists each KAM and what Financial Report it relates to as follows
    - If a KAM relates to both the group and the issuer, describe it once in the auditor's report, and that it relates to both the group and the issuer.
    - Will nearly always have a KAM for the issuer – But if there isn't one – say so.

[1] ASQC 1 and ASA 220, paragraph 7

    - If there are different KAMs for the group and the issuer, list them separately and describe which it relates to.

<u>Position and recommendation of the AUASB sub-committee</u>

- ASA 701 requires the reporting of KAMs for issuers and the group separately because they are each listed entities that prepare general purpose financial reports. However there are concerns this will not achieve the overall purpose of communicating KAMs.

- In the interests of providing useful information to users about the matters of most significance to the audit, the sub-committee consider it is appropriate to communicate KAMs for the stapled group as a whole. If there is a matter of most significance to the group audit in an issuer the auditor using professional judgement, may decide to communicate as a KAM but there is no need for a requirement to communicate KAMs for each issuer in every instance. This is applicable whether the stapled issuers' financial report is separate or presented in adjacent columns. If the auditor does not communicate KAMs for the issuer, the auditor's report does not have a KAM section.

  The basis for this position is:

    - Experience from the AUASB sub-committee's firms is that users of the stapled securities financial reports pay attention to the group, and not the separate issuers. This is based on attendance at AGMs, discussion with Audit Committees, and investor and analysts briefings.

    - CO 2015 / 838 recognises that users often find it useful to have the financial reports presented together which further supports the sub-committee's view that the issuer's financial reports aren't used in isolation.

    - They are separate listed securities that are contractually bound to form a single salable group ie they cannot be bought or sold separately. Therefore users focus on the group, and not the individual issue.

    - Reporting KAMs for the group and the issuer will be confusing to users and make KAM reporting long.

- We consider this is the same whether the stapled issuer prepares a separate financial report or is presented as an adjacent column under CO 2015 / 838.

- ASA 701 be amended to address stapled securities. FAQs are not authoritative and an amendment to the standard will best meet the objectives of dealing with this Australian specific matter.

<u>For consideration and approval by the AUASB</u>

- Do you agree with the sub-committee's recommendation that KAMs are identified for the stapled group only at group materiality, and are not required for the financial reports of each issuer or entities within the group?

- If yes, is this the same if completely separate financial reports are prepared for the issuer and the group ie. not using the class order?

- If yes, do you approve that the auditor's report does not include a KAM section?

- If yes, do you approve amending ASA 701 by :

    - Adding the following to the scope section as paragraphs Aus 5.1

      For a stapled security group KAMs are identified on the stapled group/parent financial report only and no KAMs are required separately for the issuer(s) or other financial reports of entities within the stapled group.

      If a stapled issuer(s) prepares a completely separate financial report (ie. CO 2015 / 838 or equivalent is not applied) the auditor uses professional judgement based on the criteria in ASA 701 paragraph 9 and 10 as to whether to communicate KAMs for the issuer in the auditor's report on the issuer.

      OR

  - Add a section to the requirements called "communicating KAMs when more than one set financial statements are presented within one report". The paragraph above would be included as a requirement and any other scenarios considered appropriate.

- FAQs are not authoritative and an amendment to the standard will best meet the objectives of dealing with this Australian specific matter.

- If the AUASB does not approve the above, do you approve the issuing of a FAQ clarifying that in a Stapled security group KAMs are communicated for each financial report ie. the group, the issuer (s) and any other entity preparing a financial report within the group?

**SUMMARY OF AUASB DECISION AT MEETING 29 November 2016**

The AUASB approved amending ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* to clarify that KAMs are only required to be communicated in both cases on the group financial report as a whole. In both scenarios, the auditor is to use professional judgement to determine whether to communicate KAMs specifically for the parent entity or the issuer.

# ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

## Objective of paper:

To consider if key audit matters (KAMs) are required to be communicated in the auditor's report on a half year financial report.

## Issue and background

The AUASB identified that there was an inconsistency between ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* and the ASA as follows:

- ISA 701 paragraph 5 (application paragraph) uses the term "complete set of general purpose financial statements"
- ASA 701 paragraph 5 (application paragraph) uses the term "general purpose financial reports"

This impacts the communication of KAMs on audited condensed Interim Financial Reports prepared under AASB 134, and was not considered at the time of issuing ASA 701.

Consistent with our strategic mandate the ASA should reflect the ISA and changes are only made after passing a "compelling reason" test . This difference was not identified at the time of issuing ASA 701 and no compelling reason assessment was performed

## Relevant technical background

- ASA 700 *Forming an Opinion and Reporting on a Financial Report* paragraph 30, requires the communication of KAMs for audits of financial reports of listed entities.
- ASA 701 paragraph 5 states that KAMs are required to be communicated in the auditor's report of general purpose financial reports of listed entities.
- The *Corporations Act 2001*:
    - s 302 requires listed entities to prepare half year financial reports and elect to have them audited or reviewed. In practice, the majority of listed entities elect to have a review, however audits do occur in limited circumstances.
    - s 303 dictates the content of the financial report and requires the half year financial report to be in compliance with Australian Accounting Standards.
- AASB 134 *Interim Financial Reporting*
    - prescribes the minimum content of a general purpose interim (including a half year) financial report and applies to entities required to prepare a half year financial report in accordance with the *Corporations Act 2001*.
    - Paragraph 8 allows entities to prepare either a complete or condensed set of financial statements, both of which are general purpose financial reports.
    - A condensed half year / interim financial report do not include full disclosure as required for an annual financial report, and accordingly the condensed financial report is read in conjunction with the latest annual financial report.
- AASB 134 clearly distinguishes between a complete half year / interim financial report and a condensed half year / interim financial report. This has also been confirmed by the AASB.

Therefore ISA 701 and ASA 701 are <u>inconsistent</u> as under ISA 701 KAMs are not communicated in auditor's reports on condensed interim financial reports, however they are under ASA 701.

## Conclusions and recommendation

1. Is there a compelling reason for the difference between ISA and ASA 701?

The majority of entities elect to prepare a condensed financial report and for the auditor to perform a review instead of an audit. Audits are not common, but can occur. If an entity elects to have their condensed financial report audited, is the communication of KAMs beneficial / appropriate?

Whilst it is arguable that there is benefit to users in communicating KAMs, the users can refer to the auditor's report on the annual financial report. Also the description of KAMs is likely to be problematic as there is unlikely to be disclosure on the matter in the financial report.

Also note that ISA (NZ) 701 is consistent with ISA 701, and therefore the ASA wording is not in accordance with the AUASB's strategy of harmonization of AU and NZ standards.

Therefore the AUASB technical staff have concluded that ASA 701 is amended to be consistent with ISA 701. Feedback will be requested from constituents in ED 07-16.

Agenda item 2(a).4
AUASB Meeting 31 January 2017)

**EXPOSURE DRAFT**

**ED 07-16**
(December 2016)

# Proposed Auditing Standard ASA 2016-2 *Amendments to Australian Auditing Standards*

Issued for Comment by the **Auditing and Assurance Standards Board**

Australian Government
Auditing and Assurance Standards Board

## Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 23 January 2017. Comments should be addressed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA

## Formal Submissions

Submissions should be lodged online via the "Work in Progress-Open for Comment" page of the Auditing and Assurance Standards Board (AUASB) website (www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au

## Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

## Contact Details

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# PREFACE

## Reasons for Issuing ED 07-16

The AUASB issues exposure draft ED 07-16 of proposed Auditing Standard ASA 2016-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an Australian Government Entity established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

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.

## Main Proposals

This proposed Auditing Standard makes amendments to the following Auditing Standards:

ASA 700 *Forming an Opinion and Reporting on a Financial Report* (issued December 2015)

ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (issued December 2015)

The amendments arise from changes made by the AUASB to address Australian legislative scenarios. These changes have passed the compelling reasons test and are considered appropriate and in the public interest. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

## Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods ending on or after 15 December, 2016.

## Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of ASA 2016-2 *Amendments to Australian Auditing Standards* by no later than 23 January 2017. The AUASB is seeking comments from respondents on the following questions:

1. ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* paragraph 5, states that this Auditing Standard, applies to audits of **general purpose financial reports** of listed entities, while ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report,* applies to audits of **complete set of general purpose financial statements**. The impact of this difference, is that audited condensed Interim Financial Reports, fall within the scope of ASA 701 while they would not fall within the scope of ISA 701 as they do not constitute a complete set of general purpose financial statements.

   Based on the impact of this difference, should ASA 701 paragraph 5, and elsewhere as appropriate, be amended to apply to audits of **complete set of general purpose financial statements** to be consistent with ISA 701? The AUASB is looking for feedback on this matter from constituents.

2. Are there any other issues on the application of ASA 701 which should be considered by the AUASB?

3. Is the Operative date appropriate?

4. Have applicable laws and regulations been appropriately addressed in the proposed standard?

5. Are there any references to relevant laws or regulations that have been omitted?

6. 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?

7. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

8. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

## AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

## Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants (IFAC). It contains amendments to the Australian Auditing Standards (as shown below).

# AUDITING STANDARD ASA 2016-2

## *Amendments to Australian Auditing Standards*

## Application

1. This Auditing Standard applies to:

   - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and

   - an audit of a financial report, or a complete set of financial statements, for any other purpose.

2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

## Operative Date

3. This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

## Introduction

### Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards:

   (a) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (issued December 2015)

   (b) ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* (issued December 2015)

## Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:

   (a) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (issued December 2015)

   (b) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (issued December 2015)

## Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

## Amendments to Auditing Standards

### Amendments to ASA 700

7. New paragraph Aus 49.1 inserted after paragraph 49 as follows:

   The auditor’s report shall be dated as of the date the auditor signs that report.

8. A footnote is added to the "Auditor's Signature" line in illustrations 1A, 2A, 3 and 4 after the heading as follows:

   The date of the auditor's report is the date the auditor signs the report.

**Amendments to ASA 701**

9. New paragraph Aus 5.1 inserted after paragraph 5 as follows:

   For a financial report containing consolidated and complete parent entity financial statements including notes, key audit matters are communicated in respect of the consolidated financial report. (Ref: Para A2.1).

10. New paragraph Aus 5.2 inserted after paragraph Aus 5.1 as follows:

    For a stapled security group paragraph 5 applies by the auditor determining and communicating key audit matters for the stapled group financial report only. The auditor may elect to report key audit matters separately for each stapled issuer or other general purpose financial reports of listed entities within the stapled group, however if the auditor does not elect to do so, the auditor's report need not contain a key audit matter section. Paragraph 5 applies irrespective of whether the stapled issuer, or other listed entities within the stapled group, prepare separate financial reports or are presented in adjacent columns with the group financial report.

11. New paragraph Aus A2.1 inserted after paragraph A2 as follows:

    For a financial report containing consolidated and parent entity financial statements in a four column format, the auditor communicates key audit matters in respect of the consolidated financial report, which may include a key audit matter in respect of the parent entity financial statements. However the auditor is not required to communicate key audit matters specifically for the parent entity financial statements. The auditor uses professional judgement based on the criteria in paragraphs 9 and 10, to determine whether to communicate key audit matters specifically for the parent entity financial statements.

IAASB

QUESTIONS AND ANSWERS

November 2016

# AUDITOR REPORTING: FREQUENTLY ASKED QUESTIONS

*This publication has been prepared by the Auditor Reporting Implementation Working Group (ARIWG). It does not constitute an authoritative pronouncement of the International Auditing and Assurance Standards Board (IAASB), nor does it amend or override the International Standards on Auditing (ISAs). Further, this publication is not meant to be exhaustive and reading this publication is not a substitute for reading the ISAs.*

The IAASB's new and revised Auditor Reporting standards[1] and ISA 720 (Revised)[2] (the Standards) were issued in January 2015 and April 2015 respectively, and become effective for periods ending on or after December 15, 2016. Since the Standards were issued, the IAASB has performed extensive outreach across numerous jurisdictions to encourage the adoption and support the implementation of the Standards. More recently, the IAASB has heard from stakeholders regarding actual experiences in implementing the new Standards, including practical challenges or areas where there are common differences in interpretation of the Standards. Accordingly, the ARIWG has developed this publication to address some of the common questions relating to the requirements in the ISAs. This publication does not address the responsibilities of the auditor that may exist in law, regulation or national standards, which may contain requirements in addition to those established by the Standards.

## The New and Revised Auditor Reporting Standards

1. **Paragraph 5 of ISA 701 indicates that ISA 701 applies to:**

- **Audits of complete sets of general purpose financial statements of listed entities.**
- **Circumstances when the auditor is required by law or regulation to communicate key audit matters (KAM) in the auditor's report.**
- **Circumstances when the auditor otherwise decides to communicate KAM in the auditor's report.**

**(a) Which entities are considered to be "listed entities" when applying ISA 701?**

ISA 220[3] defines a listed entity as follows:

> An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

1 The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

2 ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

3 ISA 220, *Quality Control for an Audit of Financial Statements*

The determination of which entities fall within that definition can only be established at a jurisdictional level. The National Standard Setter (NSS) or others with the appropriate authority in the jurisdiction typically would make that determination.

The determination of whether a stock exchange is "recognized" may include consideration of matters such as the following:

(i) Whether the exchange is a public exchange.

(ii) Whether there is a generally accepted framework, criteria or standards that govern admission to listing on the exchange (e.g., "listing rules").

(iii) Whether the exchange on which entities' shares are traded sets forth trading related regulations, for example, those in respect of offering securities to the public, announcements etc.

In some jurisdictions, listed entities may form part of a broader definition of "public interest entity," with a requirement in the jurisdiction that all public interest entities comply with the requirements in the ISAs that apply to audits of financial statements of listed entities.

**(b) When the auditor is required to communicate KAM in respect of the audit of the consolidated financial statements, and the auditor is also required to express an audit opinion (in either the same auditor's report or in a separate auditor's report) on the separate financial statements of the parent or holding company (hereinafter referred to as separate financial statements), is the auditor also required to communicate KAM in respect of the audit of the separate financial statements?**

Paragraph 5 of ISA 701 indicates that the standard applies to audits of complete sets of general purpose financial statements of listed entities. Paragraph 8 of ISA 700 (Revised) states "the requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements."

Accordingly, the determination of whether the communication of KAM is required in respect of the audit of the separate financial statements depends on whether the separate financial statements are viewed as a complete set of general purpose financial statements (as defined in paragraph 7(b) of ISA 700 (Revised)) under the requirements of the applicable financial reporting framework.

In circumstances where the separate financial statements are not a complete set of general purpose financial statements under the applicable financial reporting framework, the auditor may voluntarily communicate KAM.

There are a variety of possible scenarios regarding the presentation of the consolidated and separate financial statements. For example, the consolidated and separate financial statements could be presented in separate annual reports, presented as discrete financial statements in a single document (e.g., in separate sections of a single annual report), or presented side-by-side in a single annual report (also known as a four-column format). The table in the Appendix sets out these circumstances and how KAM could be presented.

Regardless of how the consolidated and separate financial statements and related auditor's report(s) are presented, the auditor would need to determine KAM in respect of the audit of the consolidated financial statements, and KAM in respect of the audit of the separate financial statements. In making this determination, the auditor may identify a matter that gives rise to KAM for both audits. For example, a cash generating unit that is experiencing deteriorating financial performance may affect both audits, but in different ways -- the estimate of the impairment of goodwill for the audit of the consolidated financial statements, and the valuation of the underlying investment for the audit of the separate financial statements. Accordingly, when describing such KAM in the auditor's report(s), the description should be tailored to each of the respective audits.

2. **Can the auditor's report refer to the International Standards on Auditing (ISAs) if the jurisdiction has not adopted the new and revised Auditor Reporting standards as of their effective date?**

Paragraph 18 of ISA 200[4] indicates that the auditor shall comply with all ISAs relevant to the audit, and that an ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist.[5] In addition, paragraph 20 of ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit.

Paragraph 4 of ISA 700 (Revised) highlights that consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. Assuming the jurisdiction has a program in effect for the adoption of the ISAs, the timing of the adoption of the new and revised auditor reporting standards for a particular jurisdiction would be determined by the NSS, or another authority as appropriate. It is recognized that there are jurisdictions that, based on their ISA adoption program, will only adopt the new and revised auditor reporting standards after the effective date of December 15, 2016. NSS (or another authority as appropriate) in those jurisdictions would need to ascertain how best to indicate in the auditor's report which auditing standards have been applied so as not to inappropriately represent compliance with the full suite of ISAs in effect for audits of financial statements with periods ending on or after December 15, 2016. For example, the auditor's report could instead refer to the jurisdictional (i.e., national) auditing standards and the NSS could provide transparency on its website about its ISA adoption program.

A similar principle would apply when complying with paragraph 28(c) of ISA 700 (Revised). In circumstances when the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) has not been adopted in full in the jurisdiction, NSS in that jurisdiction would need to specify how the relevant ethical requirements should be described in the auditor's report in the jurisdiction, so as not to inappropriately represent compliance with the IESBA Code in effect at the time the auditor's report is issued. For example, the auditor's report could instead refer to the jurisdiction of origin of the relevant ethical requirements and the NSS, or other body that

[4] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

[5] Paragraph 21 of ISA 210, *Agreeing the Terms of Audit Engagements,* also addresses circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of the ISAs.

prescribes the relevant ethical requirements such as a regulator or professional organization, could provide transparency on its website about what such ethical requirements comprise.

3. **Can the auditor's report indicate that the audit was conducted in accordance with the ISAs and the auditing standards of a specific jurisdiction?**

Question 2 addresses the considerations regarding whether the auditor's report may refer to the ISAs if the jurisdiction has not adopted the new and revised Auditor Reporting standards.

In some circumstances, the audit is conducted in accordance with the ISAs, as well as the auditing standards of a specific jurisdiction (national auditing standards). Paragraph 51 of ISA 700 (Revised) indicates that in such cases, the auditor's report may refer to the ISAs in addition to the national auditing standards, but the auditor shall do so only if:

(a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter (EOM) paragraph or Other Matter (OM) paragraph that, in the particular circumstances, is required by ISAs; and

(b) The auditor's report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) of ISA 700 (Revised) when the auditor uses the layout or wording specified by the national auditing standards.

If the auditor is unable to meet the requirements in paragraph 51, the auditor may have no alternative but to issue two separate auditor's reports: an auditor's report that relates to the audit conducted in accordance with the ISAs (provided that the minimum elements required by ISA 700 (Revised) are included in such report), and an auditor's report that relates to the audit conducted in accordance with national auditing standards.

In circumstances where the auditor meets the requirements in paragraph 51 and issues an auditor's report that refers to both the ISAs and the national auditing standards, paragraph 52 of ISA 700 (Revised) indicates that the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

4. **What is the effect, if any, on the KAM previously communicated in the auditor's report in circumstances when the auditor reissues the report or amends the report previously issued?**

In certain circumstances under ISA 560,[6] the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, this may occur when facts become known to the auditor after the financial statements have been issued that may have caused the auditor to amend the auditor's report had such facts been known to the auditor at the date of the auditor's report. In this circumstance, if management amends the financial statements, ISA 560 requires that an EOM paragraph or OM paragraph be included in the new or amended auditor's report that refers to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

Although the auditor is required to include an EOM or OM paragraph in the auditor's report to comply with the ISA 560 requirement, ISA 706 indicates that an EOM or OM paragraph cannot be a substitute

[6] ISA 560, *Subsequent Events*

for a KAM when KAM are communicated. In circumstances where the auditor reissues the auditor's report, the auditor therefore may also need to consider whether the matter that has resulted in the new or amended auditor's report (i) gives rise to an additional KAM that should be communicated, or (ii) relates to a matter previously communicated as a KAM and whether revisions to the description of that KAM are therefore necessary. Other matters previously communicated as KAM are not likely to be affected because such matters were previously determined to be matters of most significance in the audit for purposes of the original auditor's report.

Considering whether any updates to the KAM may be necessary, in addition to the EOM or OM paragraph required by ISA 560, relates to the objective of communicating KAM. The description of a KAM is intended to provide additional information to intended users of the financial statements beyond what is included in an EOM paragraph (i.e., more than a reference to the matter being emphasized and to relevant disclosures in the financial statements). The auditor also may consider cross-referencing the respective descriptions in the EOM or OM paragraph and the updated KAM in the auditor's report to clarify that both are in respect of the same matter.

5. **Should KAM be communicated in respect of each period for which the financial statements are presented when comparative financial statements[7] are presented?**

Paragraph 10 of ISA 701 indicates that the auditor shall determine which of the matters were of most significance in the audit of the financial statements of the <u>current</u> period. Paragraph A10 of ISA 701 states that the auditor's determination of KAM is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented. The IAASB's decision to limit the KAM to the audit of the current period was primarily because of its understanding that users are interested in the most recent information to make informed decisions, and therefore are more likely to value information from the auditor about matters of significance in the audit of the current period. Furthermore, the IAASB believed that there are practical challenges in communicating KAM in relation to the prior period, which could also further lengthen the auditor's report and result in a presentation that could be potentially confusing to users.

6. **Are all significant risks considered to be KAM?**

Paragraphs 14–17 of ISA 260 (Revised) require the auditor to communicate various matters with those charged with governance (TCWG), including the auditor's responsibilities in relation to the audit, the planned scope and timing of the audit, significant findings from the audit and auditor independence. In this regard, the auditor is required to communicate about the significant risks identified by the auditor, as part of communicating an overview of the planned scope and timing of the audit.

From those matters communicated with TCWG, the auditor determines the matters that required <u>significant auditor attention</u>. From the matters that required significant auditor attention, the auditor determines which were the <u>matters of most significance</u> and therefore are the key audit matters.

[7] In terms of ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements,* comparative financial statements exist when amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. Under paragraph 15 of ISA 710, when comparative financial statements are presented, the auditor's opinion should refer to each period for which financial statements are presented and on which an audit opinion is expressed.

Paragraphs A27–A30 of ISA 701 provide guidance and factors that may influence this determination. This process is depicted in a publication of the IAASB, *Determining and Communicating KAM*.

Paragraph A20 of ISA 701 explains that areas of significant management judgment and significant unusual transactions may often be identified as significant risks and therefore significant risks are often areas that require significant auditor attention. However, paragraph A21 of ISA 701 highlights that this may not be the case for all significant risks. For example, ISA 240[8] presumes that there are risks of fraud in revenue recognition and management override of controls and accordingly requires the auditor to treat these assessed risks of material misstatement due to fraud as significant risks. Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered KAM.

## Other Information

7. **Can the auditor's report refer to the ISAs if the jurisdiction has not adopted ISA 720 (Revised)?**

As explained in question 2, paragraph 18 of ISA 200 indicates that the auditor shall comply with all ISAs relevant to the audit, and that an ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist. Furthermore, paragraph 20 of ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit.

Assuming the jurisdiction has a program in effect for the adoption of the ISAs, the timing of the adoption of ISA 720 (Revised) for a particular jurisdiction would be determined by the NSS, or other authority as appropriate. It is recognized that there are jurisdictions which, based on their ISA adoption program, will only adopt ISA 720 (Revised) after the effective date of December 15, 2016. NSS in those jurisdictions would need to ascertain how best to reflect which auditing standards have been applied so as not to inappropriately represent compliance with the full suite of ISAs in effect at December 15, 2016. For example, the auditor's report could instead refer to the jurisdictional (i.e., national) auditing standards and the NSS could provide transparency on its website about its ISA adoption program.

8. **What are the auditor's reporting responsibilities with respect to other information?**

The requirements in ISA 720 (Revised) apply to all audits when other information is presented in an annual report (as defined by ISA 720 (Revised)). Paragraph 21 of ISA 720 (Revised) requires the auditor to include a separate section in the auditor's report with a heading "Other Information" (or other appropriate heading) when, at the date of the auditor's report:

- For a listed entity, the auditor has obtained, or expects to obtain, the other information; or
- For an entity other than a listed entity, the auditor has obtained some or all of the other information.

[8] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

The Other Information section of the auditor's report includes in all cases:

- A statement that management is responsible for the other information;
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any other form of assurance conclusion thereon; and
- A description of the auditor's responsibilities relating to reading, considering and reporting on the other information as required by ISA 720 (Revised).

In addition, the following information is included depending on whether the entity being audited is listed or not, and the status of the other information received by the auditor as of the report date:

| Status of the other information received | Listed entities | Entities other than listed entities |
| --- | --- | --- |
| The auditor has obtained some or all of the other information at the date of the auditor's report | • Identification of the other information obtained prior to the date of the auditor's report<br>• In respect of information obtained prior to the date of the auditor's report, either:<br>○ A statement that the auditor has nothing to report; or<br>○ If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information | The same requirements apply as for audits of listed entities |
| The auditor expects to obtain other information after the date of the auditor's report | • Identification of the other information expected to be obtained after the date of the auditor's report | No reporting required, although the auditor still has responsibilities under ISA 720 (Revised) to perform the necessary procedures on the other information |

9. **What are the auditor's responsibilities in relation to other information in circumstances when the auditor reissues the report or amends the report previously issued?**

In certain circumstances under ISA 560, the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, this may occur when facts become known to the auditor after the financial statements have been issued, that may have caused the auditor to amend the auditor's report had such facts been known to the auditor at the date of the auditor's report.

In circumstances when the auditor provides a new auditor's report, or amends the auditor's report that was previously issued, the auditor may need to reconsider the auditor's responsibilities relative to the other information, the nature and extent of which would depend on whether the auditor restricts the audit procedures on subsequent events to the amendment of the financial statements:

(a) *The auditor is permitted to restrict the audit procedures on subsequent events to the effects of the subsequent event or events causing the amendment, i.e., the circumstances in paragraph 12 of ISA 560 apply*. In such cases, the auditor's responsibility relates to (i) considering the effect on the other information as reported in the auditor's report that was previously issued, and (ii) determining whether updates to the Other Information section in the auditor's original report are necessary. With respect to other information that the auditor previously reported on, the auditor needs to consider whether appropriate updates have been made to the other information in relation to the subsequent event and the auditor may need to revise the Other Information section of the auditor's report to refer to the amended other information. The auditor is not required to report on any other information obtained after the date of the original report.

(b) *The auditor does **not** restrict the audit procedures on subsequent events to the amendment of the financial statements, i.e., the circumstances in paragraph 12 of ISA 560 do not apply.* In such cases, the Other Information section in the reissued auditor's report would cover all other information obtained as of the date of the reissued report. For audits of listed entities, the Other Information section would need to be updated to identify any other information that is expected to be obtained after the date of the auditor's report.

In both cases, the auditor would still be responsible for performing the necessary procedures on any other information obtained after the date of the auditor's report, as described in paragraph 19 of ISA 720 (Revised).

## Key Contacts

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**Appendix**

## Presentation of KAM when it has been determined that KAM are required to be communicated in respect of the audit of the separate financial statements[9]

| Consolidated and separate financial statements presented in separate documents | Consolidated and separate financial statements presented discretely in a single document | Financial statements presented side-by-side in a single document (4-column format) |
|---|---|---|
| In such a case, it is presumed that the auditor would prepare separate auditor's reports on the consolidated and separate financial statements as the related audited financial statements are contained in separate documents.<br><br>The KAM in respect of the audit of each set of financial statements should be clearly described in each report, since each report should comply with the requirements of paragraph 30 of ISA 700 (Revised). This paragraph indicates that ISA 701 is required to be applied in its entirety for an audit of a complete set of general purpose financial statements of a listed entity. | In such a case, there are two possibilities:<br>• A single auditor's report addressing both sets of financial statements. In such a case the considerations in the column to the right would apply.<br>• Separate auditor's reports for each set of financial statements. In such a case the auditor's reports would need to be standalone, that is, the auditor would need to fully comply with the requirements of paragraph 30 of ISA 700 (Revised) for each report. Accordingly, merely including a cross-reference in the auditor's report on the separate financial statements to the KAM in the auditor's report on the consolidated financial statements would be insufficient. | Because the auditor in this case would likely issue a single auditor's report addressing both the consolidated and separate financial statements, the single report would include KAM relating to the audits of both sets of financial statements. This could be presented in a variety of ways, for example:<br>• Indicating for each KAM how it applies to each audit, i.e., the audit of the consolidated and separate financial statements (see last paragraph of question 1(b) of this FAQ).<br>• Presenting the KAM for the consolidated financial statements in one section, and those for the separate financial statements in another section (the auditor could cross-refer to the related KAM in the respective sections if the auditor believes it appropriate and useful to do so). |

9 That is, the separate financial statements are considered to be a complete set of general purpose financial statements. Furthermore, it is presumed in these scenarios that there are KAM to communicate in respect of both the audit of the consolidated and separate financial statements (see paragraph A59 of ISA 701, which indicates that it may be rare that the auditor would not determine at least one KAM to be communicated in the auditor's report).

| Consolidated and separate financial statements presented in separate documents | Consolidated and separate financial statements presented discretely in a single document | Financial statements presented side-by-side in a single document (4-column format) |
| --- | --- | --- |
| | | • When each of the KAMs and their related effect on the audit is the same for the audit of the separate financial statements and the audit of the consolidated financial statements, it may be appropriate to include a general statement in the single auditor's report to indicate that the KAM apply to both the audit of the consolidated and separate financial statements. |

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Auditing and Assurance Standards Board

# AUASB Board Meeting Summary Paper

| | |
|---|---|
| **AGENDA ITEM NO.** | **2(c)** |
| **Meeting Date:** | 31 January 2017 |
| **Subject:** | Auditor's Responsibilities – Outstanding matters |
| **Date Prepared:** | 24 January 2017 |

[X] **Action Required** [ ] **For Information Purposes Only**

## Agenda Item Objectives

To consider:

- The approval of a recommendation to add an additional auditor's responsibilities statement on the AUASB website to cover non-listed groups.
- A change in the location of the statements from http://www.auasb.gov.au/auditors_files/ to a more user friendly location.

## Background

1. ASA 700 *Forming an Opinion and Reporting on a Financial Report* (revised December 2015) requires an auditor to include, in the auditor's report, a description of the auditor's responsibilities. The standard permits an auditor to make reference in the auditor's report, to a description of the auditor's responsibilities on the AUASB website.

2. When an auditor chooses to adopt this option, the standard guides auditors to refer to the AUASB's homepage: http://www.auasb.gov.au/Home.aspx [Ref: ASA 700 paragraph Aus A57.1].

3. The standard also indicates via a footnote to the reference above that the auditor should include in the auditor's report, the exact AUASB link applicable to the circumstances. Users of the auditor's report will therefore be directed to only the auditor responsibilities description that is applicable to them.

4. At its 1 December 2015 meeting, the AUASB requested the AUASB website to include four auditor's responsibilities descriptions that aligned with the four illustrative auditor's reports that are included in the appendices of ASA 700. These were presented at the 22 February 2016 meeting.

5. At the 22 February 2016 meeting, the AUASB requested a more comprehensive suite of auditor's responsibilities descriptions be brought back to a later meeting (including examples in relation to listed trusts).

6. At the 14 June 2016 meeting an additional two statements were presented to include listed entities and listed groups that are not a company. During this meeting the AUASB also requested an additional statement to cover non-listed single entities were ASA 600 applies.

7. In July 2016 the AUASB approved via an out of session vote the issue of seven auditor responsibility statements.



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8. In January 2017 a member of the AUASB requested an additional statement be added to cover non-listed groups. The AUASB member also suggested a change in the location of the statements from the current http://www.auasb.gov.au/auditors_files/ to a more user friendly URL, such as http://www.auasb.gov.au/auditor's responsibility statements/.

## Matters to Consider

### *Part A – General*

1. The AUASB is requested to consider and approve a new auditor's responsibilities statement for non-listed groups.

2. The AUASB is requested to consider and approve a more user friendly URL such as http://www.auasb.gov.au/auditor's responsibility statements/

### *Part B – "Compelling Reasons" Assessment*

1. With respect to descriptions of auditor's responsibilities on an appropriate website, no changes from the equivalent ISA 700 have been made or are proposed. The proposals of this agenda item are procedural in nature and do not affect audit requirements.

The proposed changes conform to IAASB modification guidelines for NSS? Y [√] N [ ]

## AUASB Technical Group Recommendations

1. The AUASB is requested to approve the new auditor's responsibilities statement for non-listed groups.
2. Agree on a more user friendly URL such as http://www.auasb.gov.au/auditor's responsibility statements/.

## Material Presented

| | |
|---|---|
| Agenda Item 2(c).0 | AUASB Board Meeting Summary Paper |
| Agenda Item 2(c).1 | Auditor's Responsibilities Statement – Non-Listed Group |

## Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|---|---|---|---|---|---|
| 1. | Consider and approve new auditor's responsibilities statement for non-listed groups | AUASB approval | AUASB | 31 January 2017 | o/s |
| 2. | Consider and approve new location for the auditor's responsibilities statements | AUASB approval | AUASB | 31 January 2017 | o/s |

Australian Government
Auditing and Assurance Standards Board

# AUDITOR'S RESPONSIBILITIES FORMING PART OF THE AUDITOR'S REPORT
## Group Entity—Not listed
## (Fair Presentation Framework)

As part of an audit in accordance with the Australian Auditing Standards, the auditor[1] exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by those charged with governance.
- Concludes on the appropriateness of those charged with governance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the financial report. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

[1] "Auditor" refers to an individual, a firm or an audit company responsible for the group audit opinion.