



Subject: Agenda for the 77th meeting of the AUASB

Venue: Ken Spencer Room, AUASB offices

Level 7, 600 Bourke St, Melbourne

Time: 28 July 2015 from 10.00 a.m. to 5.00 p.m.

Time	Agenda Item No.
10.00 a.m.	1. Introductory Comments
	2. Minutes of Previous AUASB Meeting
	3. Matters Arising from Previous Meetings and Action List
10.20 a.m.	4. Exposure Draft 01/15 – enhancements to auditor reporting
12.30 p.m.	<i>Lunch*</i>
1.30 p.m.	5. <i>GS 003 Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001</i>
2.10 p.m.	6. Revision of Assurance Standards ASAE 3500 and ASAE 3100
3.15 p.m.	7. <i>Break</i>
3.30 p.m.	International
4.10 p.m.	8. Corporate and Other Matters
5.00 p.m.	<i>Close</i>

* *Closed session*

Note: the running order and time allocated to agenda items is subject to change prior to and during the course of the meeting.



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1

Meeting Date: 28 July 2015
Subject: Auditor Reporting
Date Prepared: 13 July 2015

Matters to Consider

Part A – General

1. The AUASB is requested to consider all points raised by respondents to the exposure draft 01/15 together with the proposed disposition on each point. [Refer disposition papers at Agenda Items 4.2 to 4.9]

Of particular importance in this regard, the AUASB is requested to consider the following:

- (a) Ethics and Independence – refer proposed ASA 700 paragraphs Aus 28(c); Aus 49(e); Aus A29.1; and the “Basis of Opinion” paragraph in [Aus] Illustration 1A.
 - ◆ Refer KPMG submission – Agenda Item 4.2 page 44 of 50; and
 - ◆ Deloitte submission – Agenda Item 4.2 pages 47 & 48 of 50.
 - (b) Name of engagement partner - refer proposed ASA 700 paragraphs Aus 45.1; Aus 49(k); Aus A59.1; and all illustrative audit reports.
 - (c) Reinstatement of “Aus” inserts relating to the *Corporations Act 2001* (significant respondent feedback on the relationship with the Act). However, no reinstatement of other references (no compelling reasons to do so).
2. Does the AUASB approve the implementation and maintenance of an “auditor’s responsibilities” page on its website? [Refer proposed ASA 700, paragraph Aus A52.1]

ATG have yet to discuss location, prominence and other details. The “page” would need appropriate introductory text and will provide the alternative wording when the auditor issues a disclaimer of opinion.
 3. Does the AUASB agree to hold off on the inclusion of, and wording of, an “Other Information” paragraph until proposed ASA 720 has been issued? [Refer Deloitte submission Agenda Item 4.2 page 49 of 50]
 4. Does the AUASB agree that, on the basis of proposed ASA 706 paragraph A2, there are no compelling reasons to amend any of the standards to address the KPMG comment on tension between EOMs and KAM? [Refer KPMG submission at Agenda Item 4.4 pages 14 & 15 of 19.]
 5. Does the AUASB agree to *not* provide KAM illustrations? [Refer KPMG submission Agenda Item 4.4, pages 16 & 17 of 19]

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

6. Does the AUASB approve commencement of a new project to update GS 010 *Responding to Questions at an Annual General Meeting*? [Refer suggestions by IPA and KPMG]

If approved, a first draft and identified issues will be brought to the 15 September 2015 meeting.

Part B – NZAuASB

7. See comments at the BMSP [Agenda Item 4]

Part C – “Compelling Reasons” Assessment

8. See comments at the BMSP [Agenda Item 4]

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ASA 700
(xxx 2015)

Auditing Standard ASA 700

Forming an Opinion and Reporting on a Financial Report

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

Draft

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



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PREFACE

Reasons for Issuing ASA 700

The AUASB issues Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of revised ISA 700 *Forming an Opinion and Reporting on Financial Statements* (January 2015) and will replace the current ASA 700 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 700, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 700 *Forming an Opinion and Reporting on Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following requirements are additional to ISA 700:

- Paragraph Aus 28(c) requires the auditor to identify the relevant ethical requirements applicable within Australia.
- Paragraph Aus 45.1 requires the name of the engagement partner to be included in the auditor’s report.
- Paragraph Aus 49(e) requires the auditor to identify the relevant ethical requirements applicable within Australia when using an auditor’s report prescribed by law or regulation.

The following application and other explanatory material are additional to ISA 700:

- Paragraph Aus A29.1 refers to the relevant ethical requirements as described in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.
- The Appendix includes [Aus] Illustration 1A and [Aus] Illustration 2A example auditor’s reports (in respect of a single company and a group) that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 700 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 700.

AUDITING STANDARD ASA 700

Forming an Opinion and Reporting on a Financial Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to form an opinion on the financial report. It also deals with the form and content of the auditor's report issued as a result of an audit of a financial report.
2. ASA 701¹ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. ASA 705² and ASA 706³ deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other Auditing Standards also contain reporting requirements that are applicable when issuing an auditor's report.
3. This Auditing Standard applies to an audit of a general purpose financial report and is written in that context. ASA 800⁴ deals with special considerations when a financial report is prepared in accordance with a special purpose framework. ASA 805⁵ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This Auditing Standard also applies to audits for which ASA 800 or ASA 805 apply.
4. The requirements of this Auditing Standard are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This Auditing Standard promotes consistency in the auditor's report, but recognises the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with Auditing Standards, promotes credibility in the global

¹ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

² See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

³ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

⁴ See ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*.

⁵ See ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Effective Date

5. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

6. The objectives of the auditor are:

- (a) To form an opinion on the financial report based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) To express clearly that opinion through a written report.

Definitions

7. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- (a) General purpose financial report – a financial report prepared in accordance with a general purpose framework.
- (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.⁶

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁷

8. [Deleted by the AUASB. Refer Aus 8.1 and Aus 8.2]

Aus 8.1 Financial Report means, for the purpose of the *Corporations Act 2001*,^{*} financial statements for the year or the half-year and notes to the financial statements, and the directors' declaration about the statements and notes.

⁶ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(a).

⁷ See paragraphs 25–26 deal which with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

Aus 8.2 Financial Report means, for purposes other than the *Corporations Act 2001*, a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report.

9. [Deleted by the AUASB. Refer Aus 9.1]

Aus 9.1 Reference to “Australian Accounting Standards” in this Auditing Standard means the Australian Accounting Standards issued by the Australian Accounting Standards Board, and reference to “International Financial Reporting Standards” (IFRSs), means the International Financial Reporting Standards issued by the International Accounting Standards Board.

Requirements

Forming an Opinion on the Financial Report

10. The auditor shall form an opinion on whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework.^{8,9}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
 - (a) The auditor’s conclusion, in accordance with ASA 330, whether sufficient appropriate audit evidence has been obtained;¹⁰
 - (b) The auditor’s conclusion, in accordance with ASA 450, whether uncorrected misstatements are material, individually or in aggregate;¹¹ and
 - (c) The evaluations required by paragraphs 12–15 of this Auditing Standard.
12. The auditor shall evaluate whether the financial report is prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgements. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
 - (a) The financial report adequately discloses the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial report is relevant, reliable, comparable, and understandable;

^{*} See sections 295 and 303 of the *Corporations Act 2001*.

⁸ See ASA 200, paragraph 11.

⁹ See paragraphs 25–26 which deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

¹⁰ See ASA 330 *The Auditor’s Responses to Assessed Risks*, paragraph 26.

¹¹ See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraph 11.

- (e) The financial report provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial report; and (Ref: Para. A4)
 - (f) The terminology used in the financial report, including the title of each financial statement, is appropriate.
14. When the financial report is prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 of this Auditing Standard shall also include whether the financial report achieves fair presentation. The auditor's evaluation as to whether the financial report achieves fair presentation shall include consideration of:
- (a) The overall presentation, structure and content of the financial report; and
 - (b) Whether the financial report, including the related notes, represents the underlying transactions and events in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework. (Ref: Para. A5–A10)

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
- (a) concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or
 - (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement,
- the auditor shall modify the opinion in the auditor's report in accordance with ASA 705.
18. If the financial report prepared in accordance with the requirements of a fair presentation framework does not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ASA 705. (Ref: Para. A11)
19. When the financial report is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial report achieves fair presentation. However, if in extremely rare circumstances the auditor concludes that such a financial report is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A13–A14)

Auditor's Report for Audits Conducted in Accordance with Australian Auditing Standards

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A15)

Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A16)

Auditor's Opinion

23. The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."
24. The Opinion section of the auditor's report shall also:
- (a) Identify the entity whose financial report has been audited;
 - (b) State that the financial report has been audited;
 - (c) Identify the title of each statement comprising the financial report;
 - (d) Refer to the notes, including the summary of significant accounting policies; and
 - (e) Specify the date of, or period covered by, each financial statement comprising the financial report. (Ref: Para. A17–A18)
25. When expressing an unmodified opinion on a financial report prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- (a) In our opinion, the accompanying financial report presents fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or
 - (b) In our opinion, the accompanying financial report gives a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A19–A26)
26. When expressing an unmodified opinion on a financial report prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial report is prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A21–A26)
27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board or International Public Sector Accounting Standards (IPSASSs) issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A27)
- (a) States that the audit was conducted in accordance with Australian Auditing Standards; (Ref: Para. A28)
 - (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the Australian Auditing Standards;
 - (c) [Deleted by the AUASB. Refer Aus 28(c)]
- Aus 28(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.

The statement shall identify the relevant ethical requirements applicable within Australia; and (Ref: Para. A29–A34)

- (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

29. Where applicable, the auditor shall report in accordance with ASA 570.¹²

Key Audit Matters

30. For audits of financial reports of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ASA 701.
31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ASA 701. (Ref: Para. A35–A38)

Responsibilities for the Financial Report

32. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Report." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: Para. A39)
33. This section of the auditor's report shall describe management's responsibility for: (Ref: Para. A40–A43)
- (a) Preparing the financial report in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; and
 - (b) Assessing the entity's ability to continue as a going concern¹³ and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A43)
34. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 33 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A44)
35. When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the financial report in the auditor's report shall refer to "the preparation and fair presentation of this financial report" or "the preparation of the financial report that gives a true and fair view," as appropriate in the circumstances.

Auditor's Responsibilities for the Audit of the Financial Report

36. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Report."

¹² See ASA 570 *Going Concern*, paragraphs 21–23.

¹³ See ASA 570, paragraph 2.

37. This section of the auditor's report shall: (Ref: Para. A45)
- (a) State that the objectives of the auditor are to:
 - (i) Obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error; and
 - (ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A46)
 - (b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists; and
 - (c) State that misstatements can arise from fraud or error, and either:
 - (i) Describe that they 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; or¹⁴
 - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A47)
38. The Auditor's Responsibilities for the Audit of the Financial Report section of the auditor's report shall further: (Ref: Para. A45)
- (a) State that, as part of an audit in accordance with Australian Auditing Standards, the auditor exercises professional judgement and maintains professional scepticism throughout the audit.
 - (b) Describe an audit by stating that the auditor's responsibilities are:
 - (i) To identify and assess the risks of material misstatement of the financial report, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain 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;
 - (ii) To obtain 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 entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
 - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
 - (iv) To conclude on the appropriateness of management's 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 entity's ability to continue as a going concern. If the

¹⁴ See ASA 320 *Materiality in Planning and Performing an Audit*, paragraph 2.

- 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 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 an entity to cease to continue as a going concern; and
- (v) When the financial report is prepared in accordance with a fair presentation framework, to evaluate 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.
- (c) When ASA 600¹⁵ applies, further describe the auditor's responsibilities in a group audit engagement by stating that:
- (i) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial report;
- (ii) The auditor is responsible for the direction, supervision and performance of the group audit; and
- (iii) The auditor remains solely responsible for the auditor's opinion.
39. The Auditor's Responsibilities for the Audit of the Financial Report section of the auditor's report also shall: (Ref: Para. A45)
- (a) State that 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;
- (b) For audits of the financial report of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and
- (c) For audits of the financial report of listed entities and any other entities for which key audit matters are communicated in accordance with ASA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A48)

Location of the description of the auditor's responsibilities for the audit of the financial report

40. The description of the auditor's responsibilities for the audit of the financial report required by paragraphs 38–39 of this Auditing Standard shall be included: (Ref: Para. A49)
- (a) Within the body of the auditor's report;

¹⁵ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

- (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A49–A50)
 - (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or Australian Auditing Standards expressly permit the auditor to do so. (Ref: Para. A49, A51–A52)
41. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 38–39 of this Auditing Standard.
(Ref: Para. A51)

Other Reporting Responsibilities

42. If the auditor addresses other reporting responsibilities in the auditor's report on the financial report that are in addition to the auditor's responsibilities under the Australian Auditing Standards, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the Australian Auditing Standards in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the Australian Auditing Standards. (Ref: Para. A53–A55)
43. If other reporting responsibilities are presented in the same section as the related report elements required by the Australian Auditing Standards, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the Australian Auditing Standards. (Ref: Para. A55)
44. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 20–39 of this Auditing Standard shall be included under a section with a heading "Report on the Audit of the Financial Report." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Report." (Ref: Para. A55)

Name of the Engagement Partner

45. [Deleted by the AUASB. Refer Aus 45.1]

Aus 45.1 The name of the engagement partner shall be included in the auditor's report.
(Ref: Para. A56–A58)

Signature of the Auditor

46. The auditor's report shall be signed. (Ref: Para. A59–A60)

Auditor's Address

47. The auditor's report shall name the location in the jurisdiction where the auditor practices.

Date of the Auditor's Report

48. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial report, including evidence that: (Ref: Para. A61–A64)

- (a) All the statements that comprises the financial report, including the related notes, have been prepared; and
- (b) Those with the recognised authority have asserted that they have taken responsibility for the financial report.

Auditor's Report Prescribed by Law or Regulation

49. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A65–A66)

- (a) A title.
- (b) An addressee, as required by the circumstances of the engagement.
- (c) An Opinion section containing an expression of opinion on the financial report and a reference to the applicable financial reporting framework used to prepare the financial report (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 26 of this Auditing Standard).
- (d) An identification of the entity's financial report that has been audited.
- (e) [Deleted by the AUASB. Refer Aus 49(e)]

Aus 49(e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical requirements in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.

- (f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ASA 570.
- (g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of ASA 570.
- (h) Where applicable, a section that includes the information required by ASA 701, or additional information about the audit that is prescribed by law or regulation and that

addresses, and is not inconsistent with, the reporting requirements in that Auditing Standard.¹⁶ (Ref: Para. A67–A70)

- (i) A description of management’s responsibilities for the preparation of the financial report and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 32–35 of this Auditing Standard.
 - (j) A reference to Australian Auditing Standards and the law or regulation, and a description of the auditor’s responsibilities for an audit of the financial report that addresses, and is not inconsistent with, the requirements in paragraphs 36–39 of this Auditing Standard. (Ref: Para. A49–A50)
 - (k) [Deleted by the AUASB. Refer Aus 49(k)]
- Aus 49(k) The name of the engagement partner.
- (l) The auditor’s signature.
 - (m) The auditor’s address.
 - (n) The date of the auditor’s report.

Auditor’s Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Australian Auditing Standards

50. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “other auditing standards”), but may additionally comply with the Australian Auditing Standards in the conduct of the audit. If this is the case, the auditor’s report may refer to Australian Auditing Standards in addition to the other auditing standards, but the auditor shall do so only if: (Ref: Para. A71–A72)
- (a) There is no conflict between the requirements in the other auditing standards and those in the Australian Auditing Standards that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by the Australian Auditing Standards; and
 - (b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs 49(a)–(n) above when the auditor uses the layout or wording specified by the other auditing standards. However, reference to “law or regulation” in paragraph 49(j) of this Auditing Standard shall be read as reference to the other auditing standards. The auditor’s report shall thereby identify such other auditing standards.
51. When the auditor’s report refers to both the other auditing standards and Australian Auditing Standards, the auditor’s report shall identify the jurisdiction of origin of the other auditing standards.

Supplementary Information Presented with the Financial Report (Ref: Para. A73–A79)

52. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial report, the auditor shall evaluate whether, in the auditor’s professional judgement, supplementary information is nevertheless an integral part of the financial report due to its nature or how it is presented. When it is an integral part

¹⁶ See ASA 701, paragraphs 11–16.

of the financial report, the supplementary information shall be covered by the auditor's opinion.

53. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial report, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial report. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

* * *

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

- A1. Management makes a number of judgements about the amounts and disclosures in the financial report.
- A2. ASA 260 contains a discussion of the qualitative aspects of accounting practices.¹⁷ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial report as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial report as a whole is materially misstated include the following:
- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
 - Possible management bias in the making of accounting estimates.
- A3. ASA 540 addresses possible management bias in making accounting estimates.¹⁸ Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial report as a whole is free from material misstatement.

Disclosures of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Report (Ref: Para. 13(e))

- A4. It is common for a financial report prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the auditor evaluates whether the financial report provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

¹⁷ See ASA 260 *Communication with Those Charged with Governance*, Appendix 2.

¹⁸ See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A5. As explained in ASA 200, the preparation of the financial report by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial report.¹⁹ That description advises users of the financial report of the framework on which the financial report is based.
- A6. A description that the financial report is prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial report complies with all the requirements of that framework that are effective during the period covered by the financial report.
- A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., “the financial report is in substantial compliance with Australian Accounting Standards”) is not an adequate description of that framework as it may mislead users of the financial report.

Reference to More than One Financial Reporting Framework

- A8. In some cases, the financial report may represent that it is prepared in accordance with two financial reporting frameworks (e.g., the Australian Accounting Standards and IFRSs). This may be because management is required, or has chosen, to prepare the financial report in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial report complies with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial report needs to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.
- A9. A financial report that is prepared in accordance with one financial reporting framework and that contains a note or supplementary statement reconciling the results to those that would be shown under another framework is not prepared in accordance with that other framework. This is because the financial report does not include all the information in the manner required by that other framework.
- A10. The financial report may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial report the extent to which the financial report complies with another framework (e.g., a financial report prepared in accordance with Australian Accounting Standards that also describes the extent to which it complies with IFRSs). Such description may constitute supplementary financial information as discussed in paragraph 53 and is covered by the auditor’s opinion if it cannot be clearly differentiated from the financial report.

Form of Opinion (Ref: Para. 18–19)

- A11. There may be cases where the financial report, although prepared in accordance with the requirements of a fair presentation framework, does not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial report beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial report.

¹⁹ See ASA 200, paragraphs A2–A3.

- A12. It will be extremely rare for the auditor to consider a financial report that is prepared in accordance with a compliance framework to be misleading if, in accordance with ASA 210,²⁰ the auditor determined that the framework is acceptable.

Auditor's Report (Ref: Para. 20)

- A13. A written report encompasses reports issued in hard copy and those using an electronic medium.
- A14. The Appendix to this Auditing Standard contains illustrations of auditor's reports on a financial report, incorporating the elements set out in paragraphs 20–48. With the exception of the Opinion and Basis for Opinion sections, this Auditing Standard does not establish requirements for ordering the elements of the auditor's report. However, this Auditing Standard requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with Australian Auditing Standards more recognisable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the Appendix to this Auditing Standard.

Auditor's Report for Audits Conducted in Accordance with Australian Auditing Standards

Title (Ref: Para. 21)

- A15. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

- A16. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial report is being audited.

Auditor's Opinion (Ref. Para. 24–26)

Reference to the financial report that has been audited

- A17. The auditor's report states, for example, that the auditor has audited the financial report of the entity, which comprises [state the title of each financial statement and assertion statement comprising the financial report required by the applicable financial reporting framework, specifying the date or period covered by each financial statement and assertion statement] and notes to the financial statements, including a summary of significant accounting policies.
- A18. When the auditor is aware that the audited financial report will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented. This helps users to identify the financial report to which the auditor's report relates.

"Present fairly, in all material respects" or "give a true and fair view"

- A19. The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of a financial report in that jurisdiction, or by generally

²⁰ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this Auditing Standard for the auditor to evaluate the fair presentation of the financial report prepared in accordance with a fair presentation framework.

- A20. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as “with the foregoing explanation” or “subject to” in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

Description of the financial report and the matters it presents

- A21. The auditor’s opinion covers the financial report as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial report may include: a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information may also be considered to be an integral part of the financial report.
- A22. In the case of a financial report prepared in accordance with a fair presentation framework, the auditor’s opinion states that the financial report presents fairly, in all material respects, or gives a true and fair view of, the matters that the financial report are designed to present. For example, in the case of a financial report prepared in accordance with IFRSs, these matters are the financial position of the entity as at the end of the period and the entity’s financial performance and cash flows for the period then ended. Consequently, the [...] in paragraph 25 and elsewhere in this Auditing Standard is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is IFRSs or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial report is designed to present.

Description of the applicable financial reporting framework and how it may affect the auditor’s opinion

- A23. The identification of the applicable financial reporting framework in the auditor’s opinion is intended to advise users of the auditor’s report of the context in which the auditor’s opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:
- “... in accordance with Australian Accounting Standards” or
- “... in accordance with accounting principles generally accepted in Jurisdiction X ...”
- A24. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with Australian Accounting Standards and the requirements of the *Corporations Act 2001*.²¹” ASA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.²¹
- A25. As indicated in paragraph A8, the financial report may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor’s opinion on the financial report, and the auditor’s opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:
- (a) If the financial report complies with each of the frameworks individually, two opinions are expressed: that is, that the financial report is prepared in accordance with

²¹ See ASA 210, paragraph 18.

one of the applicable financial reporting frameworks (e.g., the Australian Accounting Standards) and an opinion that the financial report is prepared in accordance with the other applicable financial reporting framework. These opinions may be expressed separately or in a single sentence (e.g., the financial report is presented fairly, in all material respects [...], in accordance with Australian Accounting Standards and with the other applicable financial reporting framework).

- (b) If the financial report complies with one of the frameworks but fails to comply with the other framework, an unmodified opinion can be given that the financial report is prepared in accordance with the one framework (e.g., the Australian Accounting Standards) but a modified opinion given with regard to the other framework in accordance with ASA 705).
- A26. As indicated in paragraph A10, the financial report may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial report (see paragraphs 52–53 and related application material in paragraphs A73–A79). Accordingly,
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ASA 705.
 - (b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial report, an Emphasis of Matter paragraph is added in accordance with ASA 706, drawing attention to the disclosure.

Basis for Opinion (Ref: Para. 28)

- A27. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this Auditing Standard requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.
- A28. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

Relevant ethical requirements

- A29. [Deleted by the AUASB. Refer Aus A29.1]

Aus A29.1 The identification of the relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ASA 200 explains that the auditor is subject to the relevant ethical requirements as described in ASA 102.*

- A30. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarises those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).
- A31. Law or regulation, Australian Auditing Standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial report.

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

- A32. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial report, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

Considerations specific to group audits

- A33. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.²²
- A34. The Australian Auditing Standards do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the relevant ethical requirements or other ethical requirements to which the group engagement team is subject, nor do the Australian Auditing Standards require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ASA 600²³ provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

Key Audit Matters (Ref: Para. 30-31)

- A35. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterised in such law or regulation as public interest entities.
- A36. The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and superannuation funds), and other entities such as charities.
- A37. ASA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.²⁴ ASA 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.²⁵ When the auditor is not otherwise required to communicate key audit matters, ASA 210²⁶ explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

Considerations specific to public sector entities

- A38. Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a

²² See ASA 600, paragraph A37.

²³ See ASA 600, paragraphs 19–20.

²⁴ See ASA 210, paragraphs 9 and A21.

²⁵ See ASA 210, paragraph 10.

²⁶ See ASA 210, paragraph A24.

public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

Responsibilities for the Financial Report (Ref: Para. 32–33)

- A39. ASA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with Australian Auditing Standards is conducted.²⁷ Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial report in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial report that is free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. ASA 260 uses the term those charged with governance to describe the person(s) or organisation(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.
- A40. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraphs 33–34 to reflect additional responsibilities that are relevant to the preparation of the financial report in the context of the particular jurisdiction or the nature of the entity.
- A41. ASA 210 requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.²⁸ ASA 210 provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgement, are equivalent in effect to those set out in ASA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 33(a). In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 33(a) is used. In addition to including the description of management's responsibilities in the auditor's report as required by paragraph 33, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).
- A42. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ASA 315²⁹), the descriptions in ASA 210 and in paragraph 33 do not make specific reference to them.
- A43. The Appendix to this Auditing Standard provides illustrations of how the requirement in paragraph 33(b) would be applied when the Australian Accounting Standards are the applicable financial reporting framework. If an applicable financial reporting framework other than the Australian Accounting Standards is used, the illustrative statements featured in the Appendix to this Auditing Standard may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

²⁷ See ASA 200, paragraph 13(j).

²⁸ See ASA 210, paragraph 6(b)(i)–(ii).

²⁹ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c).

Oversight of the financial reporting process (Ref: Para. 34)

- A44. When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial report, the description as required by paragraph 34 may need to be modified to appropriately reflect the particular circumstances of the entity. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial report, no reference to oversight responsibilities is required.

Auditor's Responsibilities for the Audit of the Financial Report (Ref: Para. 36–39)

- A45. The description of the auditor's responsibilities as required by paragraphs 36–39 may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses a group's financial report. [Aus] Illustration 2A in the Appendix to this Auditing Standard includes an example of how this may be done.

Objectives of the auditor (Ref: Para. 37(a))

- A46. The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion. These are in contrast to management's responsibilities for the preparation for the financial report.

Description of materiality (Ref: Para. 37(c))

- A47. The Appendix to this Auditing Standard provides illustrations of how the requirement in paragraph 37(c), to provide a description of materiality, would be applied when the Australian Accounting Standards are the applicable financial reporting framework. If an applicable financial reporting framework other than the Australian Accounting Standards is used, the illustrative report presented in the Appendix to this Auditing Standard may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

Auditor's responsibilities relating to ASA 701 (Ref: Para. 39(c))

- A48. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 39(c). For example, the auditor may make reference to the requirement in paragraph 9 of ASA 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with ASA 315; significant auditor judgements relating to areas in the financial report that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.

Location of the description of the auditor's responsibilities for the audit of the financial report (Ref: Para. 40, 49(j))

- A49. Including the information required by paragraphs 38–39 in an appendix to the auditor's report or, when law, regulation or Australian Auditing Standards expressly permit, referring to a website of an appropriate authority containing such information may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with Australian Auditing Standards, a reference is required to be included in the auditor's report indicating where such information can be accessed.

Location in an appendix (Ref: Para. 40(b), 49(j))

- A50. Paragraph 40 permits the auditor to include the statements required by paragraphs 38–39 describing the auditor’s responsibilities for the audit of the financial report in an appendix to the auditor’s report, provided that appropriate reference is made within the body of the auditor’s report to the location of the appendix. The following is an illustration of how such a reference to an appendix could be made in the auditor’s report:

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

A further description of our responsibilities for the audit of the financial report is included in appendix X of this auditor’s report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor’s report.

Reference to a website of an appropriate authority (Ref: Para. 40(c), 41)

- A51. Paragraph 40 explains that the auditor may refer to a description of the auditor’s responsibilities located on a website of an appropriate authority, only if expressly permitted by law, regulation or Australian Auditing Standards. The information on the website that is incorporated in the auditor’s report by way of a specific reference to the website location where such information can be found may describe the auditor’s work, or the audit in accordance with Australian Auditing Standards more broadly, but it cannot be inconsistent with the description required in paragraphs 38–39. This means that the wording of the description of the auditor’s responsibilities on the website may be more detailed, or may address other matters relating to an audit of the financial report, provided that such wording reflects and does not contradict the matters addressed in paragraphs 38–39.
- A52. An appropriate authority could be the Auditing and Assurance Standards Board, a regulator, or an audit oversight body. Such organisations are well-placed to ensure the accuracy, completeness and continued availability of the standardised information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor’s report:

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at [Organisation’s] website at: [website address]. This description forms part of our auditor’s report.

- Aus A52.1 When the auditor refers to a description of the auditor’s responsibilities on a website, the appropriate authority is *The Auditing and Assurance Standards Board* and the website address is <http://www.auasb.gov.au/Home.aspx>

Other Reporting Responsibilities (Ref: Para. 42–44)

A53. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the Australian Auditing Standards. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial report. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

Aus A53.1 When the audit of a financial report is conducted in accordance with the *Corporations Act 2001* (the “Act”), section 308(3)(b) of that Act requires the auditor to describe in the auditor's report any deficiency, failure or shortcoming in respect of certain matters referred to in section 307(b), (c) or (d) of that Act.

A54. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their auditor's report on the financial report. In other cases, the auditor may be required or permitted to report on them in a separate report.

Aus A54.1 An example of “other reporting responsibilities” is where a remuneration report is included in a directors' report and the auditor is required to report in accordance with section 308(3C) of the *Corporations Act 2001*.

A55. Paragraphs 42–44 permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the Australian Auditing Standards only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the Australian Auditing Standards. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the Australian Auditing Standards. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the auditor's report with a heading “Report on Other Legal and Regulatory Requirements,” or otherwise as appropriate to the content of the section. In such cases, paragraph 44 requires the auditor to include reporting responsibilities under the Australian Auditing Standards under a heading titled “Report on the Audit of the Financial Report.”

Name of the Engagement Partner (Ref: Para. 45)

A56. [Deleted by the AUASB. Refer Aus A56.1]

Aus A56.1 ASQC 1³⁰ requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these ASQC 1 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report.

A57. Law, regulation or the Australian Auditing Standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of a general purpose financial report of listed entities. The auditor may also be required by law, regulation or the Australian Auditing Standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify

³⁰ See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, paragraph 32.

the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.

A58. [Deleted by the AUASB]

Signature of the Auditor (Ref: Para. 46)

A59. [Deleted by the AUASB. Refer Aus A59.1]

Aus A59.1 The auditor's signature is the personal name of the auditor. When appropriate, the auditor may, in addition, also sign in the name of the audit firm.

Aus A59.2 Under the *Corporations Act 2001*, the auditor of a company or registered scheme is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

A60. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

Date of the Auditor's Report (Ref: Para. 48)

A61. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ASA 560.³¹

A62. Since the auditor's opinion is provided on the financial report and the financial report is the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprises the financial report, including the related notes, have been prepared and management has accepted responsibility for them.

A63. In some jurisdictions, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements that comprises the financial report, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial report. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalising its financial report in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprises the financial report, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial reporting process at which the audit is expected to be complete.

A64. In some jurisdictions, final approval of the financial report by shareholders is required before the financial report is issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial report for purposes of Australian Auditing Standards is the earlier date on which those with the recognised authority determine that all the statements that comprises the financial report, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for them.

³¹ See ASA 560 *Subsequent Events*, paragraphs 10–17.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 49)

- A65. ASA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to Australian Auditing Standards.³² When the differences between the legal or regulatory requirements and Australian Auditing Standards relate only to the layout and wording of the auditor's report, the requirements in paragraph 49(a)–(n) set out the minimum elements to be included in the auditor's report to enable a reference to the Australian Auditing Standards. In those circumstances, the requirements in paragraphs 21–48 that are not included in paragraph 49(a)–(n) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.
- A66. Where specific requirements in a particular jurisdiction do not conflict with Australian Auditing Standards, the layout and wording required by paragraphs 21–48 assist users of the auditor's report in more readily recognising the auditor's report as a report of an audit conducted in accordance with Australian Auditing Standards.

Information Required by ASA 701 (Ref: Para. 49(h))

- A67. Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of ASA 701, or may prescribe the nature and extent of communication about such matters.
- A68. The Australian Auditing Standards do not override law or regulation that governs an audit of a financial report. When ASA 701 is applicable, reference can only be made to Australian Auditing Standards in the auditor's report if, in applying the law or regulation, the section required by paragraph 49(h) is not inconsistent with the reporting requirements in ASA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ASA 701, for example by:
- Modifying the heading "Key Audit Matters", if law or regulation prescribes a specific heading;
 - Explaining why the information required by law or regulation is being provided in the auditor's report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;
 - Where law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement in paragraph 13 of ASA 701.
- A69. ASA 210 deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of Australian Auditing Standards, which in particular includes the auditor's opinion. In these circumstances, ASA 210 requires the auditor to evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the financial report and, if so,
 - (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, ASA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ASA 210, an audit conducted in accordance with such law or regulation does not comply with Australian

³² See ASA 200, paragraph A55.

Auditing Standards. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with Australian Auditing Standards.³³

Considerations specific to public sector entities

- A70. Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of ASA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ASA 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Australian Auditing Standards (Ref: Para. 50)

- A71. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both Australian Auditing Standards as well as the other auditing standards when, in addition to complying with the relevant other auditing standards,³⁴ the auditor complies with each of the Australian Auditing Standards relevant to the audit.
- A72. A reference to both Australian Auditing Standards and the other auditing standards is not appropriate if there is a conflict between the requirements in the Australian Auditing Standards and those in the other auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter or Other Matter paragraph that, in the particular circumstances, is required by the Australian Auditing Standards. In such a case, the auditor's report refers only to the auditing standards (either Australian Auditing Standards or the other auditing standards) in accordance with which the auditor's report has been prepared.

Supplementary Information Presented with the Financial Report (Ref: Para. 52–53)

- A73. In some circumstances, the entity may be required by law, regulation or the Australian Auditing Standards, or may voluntarily choose, to present together with the financial report supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.
- A74. Paragraph 52 explains that the auditor's opinion covers supplementary information that is an integral part of the financial report because of its nature or how it is presented. This evaluation is a matter of professional judgement. To illustrate:
- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial report complies with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial report. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial report.
 - When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial report, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial report.

³³ See ASA 210, paragraph 21.

³⁴ See ASA 200, paragraph A56.

- A75. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprises the financial report in the auditor's report is sufficient.
- A76. Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial report.
- A77. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial report and any audited supplementary information, and whether it is clearly labelled as "unaudited."
- A78. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:
- Removing any cross-references from the financial report to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
 - Placing the unaudited supplementary information outside of the financial report or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial report and clearly labelling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.
- A79. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in revised ISA 720.³⁵

³⁵ See revised ISA 720, *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015].

Appendix

(Ref: Para. A14)

Illustrations of Independent Auditor's Reports on Financial Reports

- Illustration 1: [Deleted by the AUASB. Refer Illustration [Aus] 1A]
- [Aus] Illustration 1A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 2: [Deleted by the AUASB. Refer Illustration [Aus] 2A]
- [Aus] Illustration 2A: An auditor's report on a financial report of a listed company (Group) prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 3: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a fair presentation framework .
- Illustration 4: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a general purpose compliance framework.

Draft

Example Auditor's Report
Single Company—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 1A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e. ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*. (Ref: Para. 42 -44)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[#]

Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

[#] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year then ended ; and
- (b) 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

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

Our opinion on the financial report does not cover the other information and 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 the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

In preparing the financial report, the directors are responsible for assessing the Company's ability 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

Paragraph 40(b) of this Auditing Standard explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. (Ref: Para. Aus A52.1)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate 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.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report[§]

Opinion on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year ended 30 June 20X1.

In our opinion, the Remuneration Report of ABC Company Ltd., for the year [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

[Auditor's name and signature]^{*}

[Date of the auditor's report]

[Auditor's address]

Draft

[§] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

^{*} The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of the consolidated financial report of a listed company. The audit is a group audit of a company with subsidiaries (i.e. ASA 600 applies).
- The consolidated financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the consolidated financial report in ASA 210.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the consolidated financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*. (Ref: Para. 42-44)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report[#]

Opinion

We have audited the consolidated financial report of ABC Company Ltd. (the Company), including its subsidiaries, 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, notes comprising a summary of significant accounting policies, and the directors' declaration of the Company.

In our opinion:

[#] The sub-title "Report on the Audit of the Consolidated Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

the accompanying consolidated financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position as at 30 June 20X1 of the Company and its subsidiaries and of their consolidated 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 Consolidated Financial Report* section of our report. We are independent of the Company and its subsidiaries in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the consolidated 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 ABC Company Ltd., 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

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

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

In connection with our audit of the consolidated financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

Responsibilities of the Directors for the Consolidated Financial Report

The directors of the Company are responsible for the preparation of the consolidated financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial report, the directors are responsible for assessing the ability of the Company and its subsidiaries 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 Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Report

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

Paragraph 40(b) of this Auditing Standard explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. (Ref: Para. Aus A52.1)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Auditing Standard ASA 700

Forming an Opinion and Reporting on a Financial Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Company and its subsidiaries. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report[§]

Opinion on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year ended 30 June 20X1.

In our opinion, the Remuneration Report of ABC Company Ltd., for the year ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

[Auditor's name and signature]*

[Date of the auditor's report]

[Auditor's address]

[§] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 3 – Auditor’s Report on a Financial Report of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

In our opinion, the accompanying financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the Entity as at 30 June 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

[#] Or other applicable assertion by management or those charged with governance.

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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information in the Entity's annual report for the year ended 30 June 20X1, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 Management and Those Charged with Governance for the Financial Report³⁶

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,³⁷ and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

Paragraph 40(b) of this Auditing Standard explains that the shaded material below can be located in an Appendix to the auditor's report.

³⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

³⁷ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such ..."

Auditing Standard ASA 700

Forming an Opinion and Reporting on a Financial Report

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate 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.

We communicate 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 we identify during our audit.

[Auditor's name and signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 4 – Auditor’s Report on a Financial Report of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed entity required by law or regulation. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the balance sheet as at 30 June 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

In our opinion, the accompanying financial report of the Entity is prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

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*

[#] Or other applicable assertion by management or those charged with governance.

Report section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information in the Entity's annual report for the year ended 30 June 20X1, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 Management and Those Charged with Governance for the Financial Report³⁸

Management is responsible for the preparation of the financial report in accordance with XYZ Law of Jurisdiction X,³⁹ and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

³⁸ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

³⁹ [Deleted by the AUASB – not applicable as the financial reporting framework in this example is a *compliance* framework].

Auditing Standard ASA 700

Forming an Opinion and Reporting on a Financial Report

Paragraph 40(b) of this Auditing Standard explains that the shaded material below can be located in an Appendix to the auditor's report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 Entity's internal control.⁴⁰
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

We communicate 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 we identify during our audit.

[Auditor's name and signature]

[Date of the auditor's report]

[Auditor's address]

⁴⁰ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial report.

ASA 701
(xxx 2015)

Auditing Standard ASA 701

Communicating Key Audit Matters in the Independent Auditor's Report

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

Draft

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Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 701

The AUASB issues Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (January 2015).

This Auditing Standard contains differences from the ISA 701, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the communication of key audit matters in the independent auditor's report.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 701 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 701.

Draft

AUDITING STANDARD ASA 701

Communicating Key Audit Matters in the Independent Auditor's Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgement as to what to communicate in the auditor's report and the form and content of such communication.
2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial report ("intended users") to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial report. (Ref: Para. A1–A4)
3. The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial report, or the audit that was performed.
4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial report as a whole. Communicating key audit matters in the auditor's report is not:
 - (a) A substitute for disclosures in the financial report that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
 - (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with ASA 705;¹

¹ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

- (c) A substitute for reporting in accordance with ASA 570² when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
 - (d) A separate opinion on individual matters. (Ref: Para. A5–A8)
5. This Auditing Standard applies to audits of general purpose financial reports of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This Auditing Standard also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.³ However, ASA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial report, unless such reporting is required by law or regulation.⁴

Effective Date

6. [Deleted by the AUASB. Refer Aus 0.3]

Objective

7. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial report, communicate those matters by describing them in the auditor's report.

Definition

8. For the purposes of this Auditing Standard, the following term has the meaning attributed below:

Key audit matters—Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Requirements

Determining Key Audit Matters

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)
- (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ASA 315.⁵ (Ref: Para. A19–A22)
 - (b) Significant auditor judgements relating to areas in the financial report that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)
 - (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)
10. The auditor shall determine which of the matters determined in accordance with paragraph 9 of this Auditing Standard were of most significance in the audit of the financial report of the current period and therefore are the key audit matters. (Ref: Para. A9–A11, A27–A30)

² See ASA 570 *Going Concern*, paragraphs 22–23.

³ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraphs 30–31.

⁴ See ASA 705, paragraph 29.

⁵ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

Communicating Key Audit Matters

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 of this Auditing Standard apply. The introductory language in this section of the auditor's report shall state that:
- (a) Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report [of the current period]; and
 - (b) These matters were addressed in the context of the audit of the financial report as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

Key Audit Matters Not a Substitute for Expressing a Modified Opinion

12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with ASA 705 as a result of the matter. (Ref: Para. A5)

Descriptions of Individual Key Audit Matters

13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial report and shall address: (Ref: Para. A34–A41)
- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45)
 - (b) How the matter was addressed in the audit. (Ref: Para. A46–A51)

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

14. The auditor shall describe each key audit matter in the auditor's report unless:
- (Ref: Para. A53–A56)
- (a) Law or regulation precludes public disclosure about the matter; or (Ref: Para. A52)
 - (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

15. A matter giving rise to a modified opinion in accordance with ASA 705, or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570, are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 of this Auditing Standard do not apply. Rather, the auditor shall:
- (a) Report on these matter(s) in accordance with the applicable Australian Auditing Standards; and

- (b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

Form and Content of the Key Audit Matters Section in Other Circumstances

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15 of this Auditing Standard, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. A57–A59)

Communication with Those Charged with Governance

17. The auditor shall communicate with those charged with governance:
- (a) Those matters the auditor has determined to be the key audit matters; or
 - (b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A60–A63)

Documentation

18. The auditor shall include in the audit documentation:⁶ (Ref: Para. A64)
- (a) The matters that required significant auditor attention as determined in accordance with paragraph 9 of this Auditing Standard, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10 of this Auditing Standard;
 - (b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15 of this Auditing Standard; and
 - (c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

* * *

⁶ See ASA 230 *Audit Documentation*, paragraphs 8–11 and A6.

Application and Other Explanatory Material

Scope of This Auditing Standard (Ref: Para. 2)

- A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.
- A2. Users of financial reports have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by ASA 260⁷ and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgements made by the auditor in forming the opinion on the financial report as a whole, because they are often related to the areas of significant management judgement in preparing the financial report.
- A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial report to which reference is made in the auditor's report.
- A4. ASA 320⁸ explains that it is reasonable for the auditor to assume that users of the financial report:
- (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial report with reasonable diligence;
 - (b) Understand that the financial report is prepared, presented and audited to levels of materiality;
 - (c) Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
 - (d) Make reasonable economic decisions on the basis of the information in the financial report.

Because the auditor's report accompanies the audited financial report, the users of the auditor's report are considered to be the same as the intended users of the financial report.

Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report (Ref: Para. 4, 12, 15)

- A5. ASA 700 establishes requirements and provides guidance on forming an opinion on the financial report.⁹ Communicating key audit matters is not a substitute for disclosures in the financial report that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. ASA 705 addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial report.¹⁰

⁷ See ASA 260 *Communication with Those Charged with Governance*.

⁸ See ASA 320 *Materiality in Planning and Performing the Audit*, paragraph 4.

⁹ See ASA 700, paragraphs 10–15 and A1–A10.

¹⁰ See ASA 705, paragraph A7.

- A6. When the auditor expresses a qualified or adverse opinion in accordance with ASA 705, presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the communication of this matter from other key audit matters described in the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report (see paragraph 15). The Appendix in ASA 705 includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph A58 illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.
- A7. When the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.¹¹
- Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).
 - If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial report as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion (see paragraph A47).
- A8. ASA 706¹² establishes mechanisms for auditors of financial reports of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13.¹³ ASA 706 provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that Auditing Standard.¹⁴

Determining Key Audit Matters (Ref: Para. 9–10)

- A9. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgement about which matters were of most significance in the audit of the financial report of the current period.
- A10. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial report of the current period, even when the comparative financial report is presented (i.e., even when the auditor's opinion refers to each period for which the financial report is presented).¹⁵

¹¹ See ASA 705, paragraph 8.

¹² See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

¹³ See ASA 706, paragraphs 8(b) and 10(b).

¹⁴ See ASA 706, paragraphs A1–A3.

¹⁵ See ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports*.

- A11. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial report of the current period and this Auditing Standard does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial report of the prior period continues to be a key audit matter in the audit of the financial report of the current period.

Matters that Required Significant Auditor Attention (Ref: Para. 9)

- A12. The concept of significant auditor attention recognises that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial report, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgement is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.¹⁶ When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.¹⁷
- A13. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial report may be particularly relevant in the auditor's determination of key audit matters.
- A14. Areas of significant auditor attention often relate to areas of complexity and significant management judgement in the financial report, and therefore often involve difficult or complex auditor judgements. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialised area of accounting or auditing, whether engaged or employed by the firm to address these areas.
- A15. Various Australian Auditing Standards require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:
- ASA 260 requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.¹⁸ The Australian Auditing Standards acknowledge potential difficulties in relation to, for example:
 - Related party transactions,¹⁹ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.²⁰
 - ASA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.²¹ For

¹⁶ See ASA 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

¹⁷ See ASA 330, paragraph A19.

¹⁸ See ASA 260, paragraphs 16(b) and A21.

¹⁹ See ASA 550 *Related Parties*, paragraph A42.

²⁰ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*, paragraph 49(d).

²¹ See ASA 220 *Quality Control for an Audit of a Financial Report*, paragraph 18.

example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.²²

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

- A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ASA 260. However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.
- A17. Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial report, and are intended to reflect areas of the audit of the financial report that may be of particular interest to intended users. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)-(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.
- A18. In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial report. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ASA 315 (Ref: Para. 9(a))

- A19. ASA 260 requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.²³ Paragraph A13 of ASA 260 explains that the auditor may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.
- A20. ASA 315 defines a significant risk as an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration. Areas of significant management judgement and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.
- A21. However, this may not be the case for all significant risks. For example, ASA 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those

²² See ASA 220, paragraph 19.

²³ See ASA 260, paragraph 15.

assessed risks of material misstatement due to fraud as significant risks.²⁴ In addition, ASA 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.²⁵ Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10.

- A22. ASA 315 explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.²⁶ Revision to the auditor's risk assessment and re-evaluation of the planned audit procedures with respect to a particular area of the financial report (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgements Relating to Areas in the Financial Report that Involved Significant Management Judgement, Including Accounting Estimates that Have Been Identified as Having High Estimation Uncertainty (Ref: Para. 9(b))

- A23. ASA 260 requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.²⁷ In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.
- A24. However, users of the financial report have highlighted their interest in accounting estimates that have been identified as having high estimation uncertainty in accordance with ASA 540²⁸ that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgement and are often the most complex areas of the financial report, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial report (and significant changes to those policies) are relevant to their understanding of the financial report, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Period (Ref: Para. 9(c))

- A25. Events or transactions that had a significant effect on the financial report or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial report of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.²⁹ Management may have made difficult or complex judgements in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

²⁴ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs 26–27.

²⁵ See ASA 240, paragraph 31.

²⁶ See ASA 315, paragraph 31.

²⁷ See ASA 260, paragraph 16(a).

²⁸ See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraphs 10–11.

²⁹ See ASA 260, paragraphs 16(a), 16(c) and A22, and Appendix 2.

- A26. Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgements may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

Matters of Most Significance (Ref: Para. 10)

- A27. Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance often provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgement.
- A28. The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgement about their importance relative to other matters in the audit.
- A29. Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:
- The importance of the matter to intended users' understanding of the financial report as a whole, in particular, its materiality to the financial report.
 - The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
 - The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
 - The nature and extent of audit effort needed to address the matter, including:
 - The extent of specialised skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
 - The nature of consultations outside the engagement team regarding the matter.
 - The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgements become more subjective.
 - The severity of any control deficiencies identified relevant to the matter.
 - Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.
- A30. Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial report of the current period is a matter of professional judgement. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may

need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.

Communicating Key Audit Matters

Separate Key Audit Matters Section in the Auditor's Report (Ref: Para. 11)

- A31. Placing the separate Key Audit Matters section in close proximity to the auditor's opinion may give prominence to such information and acknowledge the perceived value of engagement-specific information to intended users.
- A32. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgement. For example, such information may be organised in order of relative importance, based on the auditor's judgement, or may correspond to the manner in which matters are disclosed in the financial report. The requirement in paragraph 11 to include subheadings is intended to further differentiate the matters.
- A33. When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial report of the current period, and may include reference to the specific period covered by that financial report (e.g., "for the year ended 30 June 20X1").

Descriptions of Individual Key Audit Matters (Ref: Para. 13)

- A34. The adequacy of the description of a key audit matter is a matter of professional judgement. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit. Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity).
- A35. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial report or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.
- A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.
- A37. Management or those charged with governance may decide to include new or enhanced disclosures in the financial report or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust

information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

- A38. Although the auditor's opinion on the financial report does not extend to the other information addressed by ASA 720³⁰ the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.
- A39. Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with ASA 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 18.

Reference to Where the Matter Is Disclosed in the Financial Report (Ref: Para. 13)

- A40. Paragraphs 13(a)-(b) requires the description of each key audit matter to address why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters is not a mere reiteration of what is disclosed in the financial report. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial report.
- A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial report of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example:
- When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.
 - When the auditor concludes in accordance with ASA 570 that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under ASA 570 are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial report, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.³¹

³⁰ See ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

³¹ See ASA 570, paragraph A3.

Why the Auditor Considered the Matter to Be One of Most Significance in the Audit (Ref: Para. 13(a))

- A42. The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. Accordingly, the requirements in paragraphs 9–10 and the application material in paragraphs A12–A29 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.
- A43. The relevance of the information for intended users is a consideration for the auditor in determining what to include in the description of a key audit matter. This may include whether the description would enable a better understanding of the audit and the auditor's judgements.
- A44. Relating a matter directly to the specific circumstances of the entity may also help to minimise the potential that such descriptions become overly standardised and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgements made in the financial report of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods.
- A45. The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:
- Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
 - New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
 - Changes in the entity's strategy or business model that had a material effect on the financial report.

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

- A46. The amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of professional judgement. In accordance with paragraph 13(b), the auditor may describe:
- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
 - A brief overview of procedures performed;
 - An indication of the outcome of the auditor's procedures; or
 - Key observations with respect to the matter,
- or some combination of these elements.

Law or regulation or national auditing standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.

- A47. In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial report as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the auditor's opinion, care may be necessary so that language used in the description of a key audit matter:
- Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial report.
 - Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardised language.
 - Takes into account how the matter is addressed in the related disclosure(s) in the financial report, if any.
 - Does not contain or imply discrete opinions on separate elements of the financial report.
- A48. Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgement required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry developments. It may also be useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.
- A49. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial report and is therefore not inconsistent with paragraphs 14–15 of ASA 620.³²
- A50. There may be challenges in describing the auditor's procedures, particularly in complex, judgemental areas of the audit. In particular, it may be difficult to summarise the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgements involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.
- A51. As noted in paragraph A46, the auditor may also provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial report as a whole.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14)

- A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

³² See ASA 620 *Using the Work of an Auditor's Expert*.

A53. As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgement not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

A54. The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgement in determining whether to communicate the matter by:

- Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity (e.g., if law, regulation or certain financial reporting frameworks permit delayed disclosure or non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure. Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b).
- Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate.
- Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated.

The auditor also may consider it necessary to obtain a written representation from management as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.

A56. The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgement. Accordingly, the auditor may consider it appropriate to obtain legal advice.

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

A57. The requirement in paragraph 16 applies in three circumstances:

- (i) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
 - (ii) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.
 - (iii) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.
- A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters to communicate in our report.

- A59. The determination of key audit matters involves making a judgement about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a general purpose financial report of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

Communication with Those Charged with Governance (Ref: Para. 17)

- A60. ASA 260 requires the auditor to communicate with those charged with governance on a timely basis.³³ The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial report are being finalised for issuance.
- A61. Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion. Communication with those charged with governance recognises their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.
- A62. The communication with those charged with governance required by paragraph 17(a) also addresses the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor's report (see paragraphs 14 and A54).
- A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the

³³ See ASA 260, paragraph 21.

auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

Documentation (Ref: Para. 18)

- A64. Paragraph 8 of ASA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgements. In the context of key audit matters, these professional judgements include the determination, from the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. The auditor's judgements in this regard are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual matter (see paragraph A39), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). However, this Auditing Standard does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention.

Draft

ASA 705
(xxx 2015)

Auditing Standard ASA 705

Modifications to the Opinion in the Independent Auditor's Report

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

Draft

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PREFACE

Reasons for Issuing ASA 705

The AUASB issues Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of revised ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* (January 2015) and will replace the current ASA 705 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 705, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following application and other explanatory material is additional to ISA 705:

Appendix [Aus] Illustration 1A, [Aus] Illustration 2A and [Aus] Illustration 3A example auditor's reports that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 705 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 705.

AUDITING STANDARD ASA 705

Modifications to the Opinion in the Independent Auditor's Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ASA 700,¹ the auditor concludes that a modification to the auditor's opinion on the financial report is necessary. This Auditing Standard also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in ASA 700 apply, and are not repeated in this Auditing Standard unless they are explicitly addressed or amended by the requirements of this Auditing Standard.

Types of Modified Opinions

2. This Auditing Standard establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:
 - (a) The nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - (b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report. (Ref: Para. A1)

Effective Date

3. [Deleted by the AUASB. Refer Aus 0.3]

Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial report that is necessary when:

¹ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

- (a) The auditor concludes, based on the audit evidence obtained, that the financial report as a whole is not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement.

Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:
 - (i) Are not confined to specific elements, accounts or items of the financial report;
 - (ii) If so confined, represent or could represent a substantial proportion of the financial report; or
 - (iii) In relation to disclosures, are fundamental to users' understanding of the financial report.
 - (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial report.

Requirements

Circumstances When a Modification to the Auditor's Opinion is Required

6. The auditor shall modify the opinion in the auditor's report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or (Ref: Para. A2–A7)
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement. (Ref: Para. A8–A12)

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

7. The auditor shall express a qualified opinion when:
- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.
10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial report due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial report, the auditor shall request that management remove the limitation.
12. If management refuses to remove the limitation referred to in paragraph 11 of this Auditing Standard, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,² and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
 - (a) If the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
 - (b) If the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial report. (Ref. Para. A14)
14. If the auditor withdraws as contemplated by paragraph 13(b)(i) of this Auditing Standard, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial report as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such

² See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

an unmodified opinion in the same report³ in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial report as a whole.
(Ref: Para. A16)

Form and Content of the Auditor's Report When the Opinion is Modified

Auditor's Opinion

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section. (Ref: Para. A17–A19)

Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial report, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial report presents fairly, in all material respects (or gives a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial report has been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial report does not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial report has not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
- (a) State that the auditor does not express an opinion on the accompanying financial report;
 - (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report; and

³ ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

- (c) Amend the statement required by paragraph 24(b) of ASA 700, which indicates that the financial report has been audited, to state that the auditor was engaged to audit the financial report.

Basis for Opinion

20. When the auditor modifies the opinion on the financial report, the auditor shall, in addition to the specific elements required by ASA 700: (Ref: Para. A21)
 - (a) Amend the heading "Basis for Opinion" required by paragraph 28 of ASA 700 to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
 - (b) Within this section, include a description of the matter giving rise to the modification.
21. If there is a material misstatement of the financial report that relates to specific amounts in the financial report (including quantitative disclosures in the notes to the financial report), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)
22. If there is a material misstatement of the financial report that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.
23. If there is a material misstatement of the financial report that relates to the non-disclosure of information required to be disclosed, the auditor shall:
 - (a) Discuss the non-disclosure with those charged with governance;
 - (b) Describe in the Basis for Opinion section the nature of the omitted information; and
 - (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23)
24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.
25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of ASA 700 to include the word "qualified" or "adverse", as appropriate.
26. When the auditor disclaims an opinion on the financial report, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of ASA 700. Those elements are:
 - (a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
 - (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial report, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A24)

Description of Auditor's Responsibilities for the Audit of the Financial Report When the Auditor Disclaims an Opinion on the Financial Report

28. When the auditor disclaims an opinion on the financial report due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 38-40 of ASA 700 to include only the following: (Ref: Para. A25)
 - (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial report in accordance with Australian Auditing Standards and to issue an auditor's report;
 - (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report; and
 - (c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of ASA 700.

Considerations When the Auditor Disclaims an Opinion on the Financial Report

29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial report, the auditor's report shall not include a Key Audit Matters section in accordance with ASA 701.⁴ (Ref: Para. A26)

Communication with Those Charged with Governance

30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: Para. A27)

* * *

Application and Other Explanatory Material

Types of Modified Opinions (Ref: Para. 2)

- A1. The table below illustrates how the auditor's judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial report, affects the type of opinion to be expressed.

⁴ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11-13.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Report	
	Material but Not Pervasive	Material and Pervasive
The financial report is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Circumstances When a Modification to the Auditor's Opinion Is Required

Nature of Material Misstatements (Ref: Para. 6(a))

- A2. ASA 700 requires the auditor, in order to form an opinion on the financial report, to conclude as to whether reasonable assurance has been obtained about whether the financial report as a whole is free from material misstatement.⁵ This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial report in accordance with ASA 450.⁶
- A3. ASA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial report may arise in relation to:
- The appropriateness of the selected accounting policies;
 - The application of the selected accounting policies; or
 - The appropriateness or adequacy of disclosures in the financial report.

Appropriateness of the Selected Accounting Policies

- A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial report may arise when:
- The selected accounting policies are not consistent with the applicable financial reporting framework; or
 - The financial report, including the related notes, does not represent the underlying transactions and events in a manner that achieves fair presentation.
- A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial report may arise when the entity has not complied with these requirements.

Application of the Selected Accounting Policies

- A6. In relation to the application of the selected accounting policies, material misstatements of the financial report may arise:

⁵ See ASA 700, paragraph 11.

⁶ See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraph 11.

- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
- (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Report

- A7. In relation to the appropriateness or adequacy of disclosures in the financial report, material misstatements of the financial report may arise when:
- (a) The financial report does not include all of the disclosures required by the applicable financial reporting framework;
 - (b) The disclosures in the financial report are not presented in accordance with the applicable financial reporting framework; or
 - (c) The financial report does not provide the disclosures necessary to achieve fair presentation.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
 - (b) Circumstances relating to the nature or timing of the auditor's work; or
 - (c) Limitations imposed by management.
- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.
- A10. Examples of circumstances beyond the control of the entity include when:
- The entity's accounting records have been destroyed.
 - The accounting records of a significant component have been seized indefinitely by governmental authorities.
- A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:
- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
 - The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
 - The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

- A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:
- Management prevents the auditor from observing the counting of the physical inventory.
 - Management prevents the auditor from requesting external confirmation of specific account balances.

Determining the Type of Modification to the Auditor's Opinion

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)(i)–14)

- Aus A12.1 An inability to obtain sufficient appropriate audit evidence due to a management-imposed limitation may be a matter that the auditor is required to report to the Australian Securities and Investments Commission (ASIC) under sections 311, 601HG or 990K of the *Corporations Act 2001* (the Act). Particular attention should be given to section 312 of the Act which deals with assisting an auditor.
- A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.
- A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial report of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial report covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those the financial report or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.⁷
- A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.
- Aus A15.1 Under the *Corporations Act 2001*, the removal and resignation of auditors is covered by sections 329 and 331AC.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)

- A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:
- The expression of an unmodified opinion on the financial report prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial report under a different financial reporting framework.⁸
 - The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see

⁷ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A10.
⁸ See ASA 700, paragraph A25(b) for a description of this circumstance.

ASA 510⁹). In this case, the auditor has not expressed a disclaimer of opinion on the financial report as a whole.

Form and Content of the Auditor's Report When the Opinion is Modified

Illustrative Auditor's Reports (Ref: Para. 16)

- A17. [Aus] Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial reports are materially misstated.
- A18. [Aus] Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial report. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial report. In each of the latter two cases, the possible effects on the financial report of the inability are both material and pervasive. The Appendices to other Australian Auditing Standards that include reporting requirements, including ASA 570,¹⁰ also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: Para. 16)

- A19. Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

Qualified Opinion (Ref: Para. 17)

- A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Basis for Opinion (Ref: Para. 20, 21, 23, 27)

- A21. Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.
- A22. An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.
- A23. Disclosing the omitted information within the Basis for Opinion section would not be practicable if:
- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
 - (b) In the auditor's judgement, the disclosures would be unduly voluminous in relation to the auditor's report.
- Aus A23.1 Where an audit is conducted under the *Corporations Act 2001* (the Act) and there is a material misstatement of the financial report that relates to the non-disclosure of required information, the auditor needs to consider reporting obligations under the Act.

⁹ See ASA 510 *Initial Audit Engagements—Opening Balances*, paragraph 10.

¹⁰ See ASA 570 *Going Concern*.

- A24. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial report.

Description of Auditor's Responsibilities for the Audit of the Financial Report When the Auditor Disclaims an Opinion on the Financial Report (Ref: Para. 28)

- A25. When the auditor disclaims an opinion on the financial report, the following statements are better positioned within the Auditor's Responsibilities for the Audit of the Financial Report section of the auditor's report, as illustrated in Illustrations 4–5 of the Appendix.
- The statement required by paragraph 28(a) of ASA 700, amended to state that the auditor's responsibility is to conduct an audit of the entity's financial report in accordance with Australian Auditing Standards; and
 - The statement required by paragraph Aus 28(c) of ASA 700 about independence and other ethical responsibilities.

Considerations When the Auditor Disclaims an Opinion on the Financial Report (Ref: Para. 29)

- A26. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial report and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial report as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial report as a whole. Accordingly, paragraph 29 prohibits a Key Audit Matters section from being included in the auditor's report when the auditor disclaims an opinion on the financial report, unless the auditor is otherwise required by law or regulation to communicate key audit matters.

Communication with Those Charged with Governance (Ref: Para. 30)

- A27. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the wording of the modification enables:
- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
 - (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
 - (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

Appendix

(Ref: Para. A17-A18, A25)

Illustrations of Auditor's Reports with Modifications to the Opinion

- Illustration 1: [Deleted by the AUASB. Refer Illustration [Aus] 1A].
- Illustration [Aus] 1A: An auditor's report containing a qualified opinion due to a material misstatement of the financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 2: [Deleted by the AUASB. Refer Illustration [Aus] 2A].
- Illustration [Aus] 2A: An auditor's report containing an adverse opinion due to a material misstatement of the group financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 3: [Deleted by the AUASB. Refer Illustration [Aus] 3A].
- Illustration [Aus] 3A: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate - financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial report.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial report.

Example Auditor's Report
Single Company—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 1A: Qualified Opinion due to a Material Misstatement of the Financial Report

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e. ASA 600 does not apply).
- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

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), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

[#] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

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

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. The directors have not stated the inventories at the lower of cost and net realisable value but have stated them solely at cost, which constitutes a departure from Australian Accounting Standards. The Company's records indicate that, had the directors stated the inventories at the lower of cost and net realisable value, an amount of xxx would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

[Reporting in accordance with the reporting requirements in revised ISA 720 – see Illustration 6 in Appendix 2 of ISA 720. The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Responsibilities of the Directors for the Financial Report

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

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Report

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

Report on the Remuneration Report[§]

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

[*Auditor's name and signature*]*

[*Date of the auditor's report*]

[*Auditor's address*]

Draft

[§] The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor’s report. Under paragraph 42, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor’s report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 2A: Adverse Opinion due to a Material Misstatement of the Financial Report

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of the financial report of a listed company. The audit is a group audit of a company with subsidiaries (i.e. ASA 600 applies).
- The consolidated financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the consolidated financial report in ASA 210.
- The consolidated financial report is materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial report. The effects of the misstatement on the consolidated financial report have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern in accordance with ASA 570.
- ASA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial report also affects the other information.
- In addition to the audit of the consolidated financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report[#]

Adverse Opinion

We have audited the consolidated financial report of ABC Company Ltd. (the Company), including its subsidiaries, 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, notes comprising a summary of significant accounting policies, and the directors' declaration of the Company.

[#] The sub-title "Report on the Audit of the Consolidated Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705

Modifications to the Opinion in the Independent Auditor's Report

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial report of ABC Company Ltd., is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated financial position as at 30 June 20X1 of the Company and its subsidiaries and of their consolidated financial performance for the year then ended ; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Adverse Opinion

As explained in Note X, the Company has not consolidated subsidiary XYZ Company that the Company acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Australian Accounting Standards, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial report would have been materially affected. The effects on the consolidated financial report of the failure to consolidate have not been determined.

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 Consolidated Financial Report* section of our report. We are independent of the Company and its subsidiaries in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the consolidated 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 ABC Company Ltd., 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

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

[*Reporting in accordance with the reporting requirements of revised ISA 720 - see Illustration 7 in Appendix 2. The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.*#]

Responsibilities of the Directors for the Financial Report

[*Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.*]

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report[§]

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature]^{*}

[Date of the auditor's report]

[Auditor's address]

Draft

[§] The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor’s report. Under paragraph 42, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

^{*} The auditor is required, under the *Corporations Act 2001*, to sign the auditor’s report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 3A: Qualified Opinion due the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of the financial report of a listed company. The audit is a group audit of a company with subsidiaries (i.e. ASA 600 applies).
- The consolidated financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the consolidated financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial report also affects the other information.
- In addition to the audit of the consolidated financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report[#]

Qualified Opinion

We have audited the consolidated financial report of ABC Company Ltd. (the Company), including its subsidiaries, 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, notes comprising a summary of significant accounting policies, and the directors' declaration of the Company.

[#] The sub-title "Report on the Audit of the Consolidated Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated financial position as at 30 June 20X1 of the Company and its subsidiaries and of their consolidated financial performance for the year then ended ; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at 30 June 20X1, and ABC Company's share of XYZ Company's net income of xxx is included in ABC Company's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company's investment in XYZ Company as at 30 June 20X1 and ABC Company's share of XYZ Company's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 Consolidated Financial Report* section of our report. We are independent of the Company and its subsidiaries in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the consolidated 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 ABC Company Ltd., 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

[Reporting in accordance with the reporting requirements of revised ISA 720. – see Illustration 6 in Appendix 2 of ISA 720. The last paragraph of the other information section in Illustration 6 would be

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.[#]]

Responsibilities of the Directors for the Financial Report

[*Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.*]

Auditor's Responsibilities for the Audit of the Financial Report

[*Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.*]

Report on the Remuneration Report[§]

[*Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.*]

[*Auditor's name and signature*]^{*}

[*Date of the auditor's report*]

[*Auditor's address*]

Draft

[#] Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

[§] The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor’s report. Under paragraph 42, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

^{*} The auditor is required, under the *Corporations Act 2001*, to sign the auditor’s report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Financial Report

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a consolidated financial report of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ASA 600 applies).
- The consolidated financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared in accordance with the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial report. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial report (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Inclusion of key audit matters is not permitted under paragraph 29.
- The auditor is not permitted to include an other information section in accordance with revised ISA 720*.
- Those responsible for oversight of the consolidated financial report differ from those responsible for the preparation of the consolidated financial report.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the consolidated financial report, the auditor has other reporting responsibilities required under law.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report¹¹

Disclaimer of Opinion

We were engaged to audit the consolidated financial report of ABC Entity, including its subsidiaries, which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated

* Paragraph A54 of revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include a other information section, when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

¹¹ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

We do not express an opinion on the accompanying consolidated financial report of the Company and its subsidiaries. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this consolidated financial report.

Basis for Disclaimer of Opinion

ABC Entity's investment in its joint venture XYZ Entity is carried at xxx on the consolidated statement of financial position, which represents over 90% of the net assets of ABC Entity as at 30 June 20X1. We were not allowed access to the management and the auditors of XYZ Entity, including XYZ Entity's auditor's audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the ABC Entity's proportional share of XYZ Entity's assets that it controls jointly, its proportional share of XYZ Entity's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

Responsibilities of Management and Those Charged with Governance for the Financial Report¹²

Management is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and for such internal control as management determines is necessary to enable the preparation of the consolidated financial report that is free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the financial reporting process of ABC Entity and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Report

Our responsibility is to conduct an audit of the consolidated financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial report.

We are independent of ABC Entity and its subsidiaries in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the consolidated financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

[#] Or other applicable assertion by management or those charged with governance.

¹² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature]

[Date of the auditor's report]

[Auditor's address]

Draft

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Report

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600, does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared in accordance with the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial report, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial report.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Inclusion of key audit matters is not permitted under paragraph 29.
- The auditor is not permitted to include an other information section in accordance with revised ISA 720*.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under law.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report¹³

Disclaimer of Opinion

We were engaged to audit the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

We do not express an opinion on the accompanying financial report of the Entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we

* Paragraph A54 of revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include a other information section, when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

¹³ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[#] Or other applicable assertion by management or those charged with governance.

have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Entity until after 30 June 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 30 June 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at 30 June 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Responsibilities of Management and Those Charged with Governance for the Financial Report¹⁴

[Reporting in accordance with ASA 700 – see Illustration 4 above]

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the Entity's financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report.

We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

Report on Other Legal and Regulatory Requirements

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

[Auditor's name and signature]

[Date of the auditor's report]

[Auditor's address]

¹⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

ASA 706
(xxx 2015)

Auditing Standard ASA 706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Issued by the Auditing and Assurance Standards Board

Draft

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Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 706

The AUASB issues Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of revised ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (January 2015) and will replace the current ASA 706 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 706, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following application and other explanatory material is additional to ISA 706:

Appendix 3 [Aus] Illustration 1 example auditor's report that conforms with the requirements of the *Corporations Act 2001*.

Appendix 4 [Aus] Illustration 2 example auditor's report.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 706 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 706.

AUDITING STANDARD ASA 706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with additional communication in the auditor's report when the auditor considers it necessary to:
 - (a) Draw users' attention to a matter or matters presented or disclosed in the financial report that are of such importance that they are fundamental to users' understanding of the financial report; or
 - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial report that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
2. ASA 701¹ establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this Auditing Standard addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this Auditing Standard. (Ref: Para. A1–A3)
3. ASA 570² establishes requirements and provides guidance about communication in the auditor's report relating to going concern.
4. Appendices 1 and 2 identify Australian Auditing Standards that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this Auditing Standard regarding the form of such paragraphs apply. (Ref: Para. A4)

¹ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

² See ASA 570 *Going Concern*.

Effective Date

5. [Deleted by the AUASB. Refer Aus 0.3]

Objective

6. The objective of the auditor, having formed an opinion on the financial report, is to draw users' attention, when in the auditor's judgement it is necessary to do so, by way of clear additional communication in the auditor's report, to:
- (a) A matter, although appropriately presented or disclosed in the financial report, that is of such importance that it is fundamental to users' understanding of the financial report; or
 - (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

7. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
 - (b) Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirements

Emphasis of Matter Paragraphs in the Auditor's Report

8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)
- (a) The auditor would not be required to modify the opinion in accordance with ASA 705³ as a result of the matter; and
 - (b) When ASA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)
9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
 - (b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report.

³ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

The paragraph shall refer only to information presented or disclosed in the financial report; and

- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised. (Ref: Para. A7–A8, A16–A17)

Other Matter Paragraphs in the Auditor's Report

10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:
 - (a) This is not prohibited by law or regulation; and
 - (b) When ASA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14)
11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: Para. A15–A17)

Communication with Those Charged with Governance

12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: Para. A18)

Application and Other Explanatory Material

The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report (Ref: Para. 2, 8(b))

- A1. Key audit matters are defined in ASA 701 as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial report of the current period.⁴ Communicating key audit matters provides additional information to intended users of the financial report to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgement in the audited the financial report. When ASA 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.
- A2. Matters that are determined to be key audit matters in accordance with ASA 701 may also be, in the auditor's judgement, fundamental to users' understanding of the financial report. In such cases, in communicating the matter as a key audit matter in accordance with ASA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial report.
- A3. There may be a matter that is not determined to be a key audit matter in accordance with ASA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgement, is fundamental to users' understanding of the financial report (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this ASA.

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 4, 8)

- A4. Appendix 1 identifies Australian Auditing Standards that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:
- When the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
 - To alert users that the financial report is prepared in accordance with a special purpose framework.
 - When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).⁵
- A5. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
 - A significant subsequent event that occurs between the date of the financial report and the date of the auditor's report.⁶

⁴ See ASA 260 *Communication with Those Charged with Governance*, paragraph 16.

⁵ See ASA 560 *Subsequent Events*, paragraphs 12(b) and 16.

- Early application (where permitted) of a new accounting standard that has a material effect on the financial report.
 - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A6. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

Including an Emphasis of Matter Paragraph in the Auditor's Report (Ref: Para. 9)

- A7. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:
- (a) A modified opinion in accordance with ASA 705 when required by the circumstances of a specific audit engagement;
 - (b) Disclosures in the financial report that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
 - (c) Reporting in accordance with ASA 570⁷ when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.
- A8. Paragraphs A16–A17 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.
- Aus A8.1 When an auditor's report is prepared on a financial report prepared under the *Corporations Act 2001* (the Act), section 308(3B) of the Act requires that if the financial report includes additional information under paragraph 295(3)(c) (additional information included to give a true and fair view of the entity's financial position and performance), the auditor's report includes the auditor's opinion on whether the additional information was necessary to give a true and fair view.

Other Matter Paragraphs in the Auditor's Report (Ref: Para. 10–11)*Circumstances in Which an Other Matter Paragraph May Be Necessary*

Relevant to Users' Understanding of the Audit

- A9. ASA 260 requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.⁸ Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in ASA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.
- A10. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,⁹ the auditor may

⁶ See ASA 560, paragraph 6.

⁷ See ASA 570, paragraphs 22–23.

⁸ See ASA 260, paragraph 15.

⁹ See ASA 705, paragraph 13(b)(ii) for a discussion of this circumstance.

consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

- A11. Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial report or of the auditor's report thereon. When the Other Matter section includes more than one matter that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, it may be helpful to use different sub-headings for each matter.
- A12. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the Australian Auditing Standards (see Other Reporting Responsibilities section in ASA 700¹⁰), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

Reporting on more than one financial report

- A13. An entity may prepare one financial report in accordance with a general purpose framework and another financial report in accordance with another general purpose framework (e.g., Australian Accounting Standards), and engage the auditor to report on both sets of the financial report. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another financial report has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on that financial report.

Restriction on distribution or use of the auditor's report

- A14. A financial report prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such a general purpose financial report meets their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Including an Other Matter Paragraph in the Auditor's Report

- A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial report. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, relevant ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)

- A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgement as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ASA 700. For example:

Emphasis of Matter Paragraphs

¹⁰ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraphs 42–44.

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,¹¹ the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgement as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter—Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

Other Matter Paragraphs

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.
- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Report and the Report on Other Legal and Regulatory Requirements.

A17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor's report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a listed entity that contains a qualified opinion and for which key audit matters have not been communicated.

Communication with Those Charged with Governance (Ref: Para. 12)

A18. The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

¹¹ For example, as required by ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 19 and ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 14.

Appendix 1

(Ref: Para. 4, A4)

LIST OF AUSTRALIAN AUDITING STANDARDS CONTAINING REQUIREMENTS FOR EMPHASIS OF MATTER PARAGRAPHS

This appendix identifies paragraphs in other Australian Auditing Standards that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ASA 210 *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- ASA 560 *Subsequent Events* – paragraphs 12(b) and 16
- ASA 800 *Special Considerations—Audits of a Financial Report Prepared in Accordance with Special Purpose Frameworks* – paragraph 14

Draft

Appendix 2

(Ref: Para. 4)

LIST OF AUSTRALIAN AUDITING STANDARDS CONTAINING REQUIREMENTS FOR OTHER MATTER PARAGRAPHS

This appendix identifies paragraphs in other Australian Auditing Standards that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ASA 560 *Subsequent Events* – paragraphs 12(b) and 16
- ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports* – paragraphs 13–14, 16–17 and 19
- ASA 720 *The Auditor's Responsibilities Relating to Other Information* – paragraph 10(a)

Draft

Appendix 3

(Ref: Para. A17)

ILLUSTRATION OF AN AUDITOR'S REPORT THAT INCLUDES A KEY AUDIT MATTERS SECTION, AN EMPHASIS OF MATTER PARAGRAPH, AND AN OTHER MATTER PARAGRAPH

Example Auditor's Report
Single Company—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 1

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report using a fair presentation framework. The audit is not a group audit (i.e., ASA 600¹² does not apply).
- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- Between the date of the financial report and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgement, the matter is of such importance that it is fundamental to users' understanding of the financial report. The matter did not require significant auditor attention in the audit of the financial report in the current period.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial report was audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

¹² See ASA 600 *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report¹³

Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year then ended ; and
- (b) 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 a Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., 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.

Emphasis of Matter¹⁴

We draw attention to Note X of the financial report, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

¹³ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*]

¹⁴ As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

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

Other Matter

The financial report of ABC Company Ltd., for the year ended 30 June 20X0, was audited by another auditor who expressed an unmodified opinion on that report on 31 August 20X1.

Responsibilities of the Directors for the Financial Report¹⁵

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

Auditor's Responsibilities for the Audit of the Financial Report

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

Report on Other Legal and Regulatory Requirements

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

[Auditor's name and signature]^{}*

[Date of the auditor's report]

[Auditor's address]

¹⁵ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Appendix 4

(Ref: Para. A8)

ILLUSTRATION OF AN AUDITOR'S REPORT CONTAINING A QUALIFIED OPINION DUE TO A DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK AND THAT INCLUDES AN EMPHASIS OF MATTER PARAGRAPH

[Aus] Illustration 2

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared in accordance with the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- Between the date of the financial report and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgement, the matter is of such importance that it is fundamental to users' understanding of the financial report. The matter did not require significant auditor attention in the audit of the financial report in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under law.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of a Financial Report¹⁶

Qualified Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the declaration by those charged with governance.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the Entity as at 30 June 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Qualified Opinion

The Entity's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from Australian Accounting Standards. The Entity's records indicate that had management marked the marketable securities to market, the Entity would have recognised an unrealised loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at 30 June 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

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 Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial report, which describes the effects of a fire in the Entity's production facilities. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Report¹⁷

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

¹⁶ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

* Or other applicable assertion by management or those charged with governance.

¹⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

Report on Other Legal and Regulatory Requirements

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

[*Auditor's Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

Draft

ASA 570
(xxx 2015)

Auditing Standard ASA 570

Going Concern

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

Draft

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Australian Government
Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 570

The AUASB issues Auditing Standard ASA 570 *Going Concern* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of revised ISA 570 *Going Concern* (January 2015) and will replace the current ASA 570 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 570, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 570 *Going Concern* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 570 *Going Concern* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following requirements are additional to ISA 570:

- Paragraph Aus 13.1 requires the auditor to assess the appropriateness of management’s going concern assumption for the relevant period.
- Paragraph Aus 13.2 defines the relevant period to be approximately twelve months from the date of the auditor’s current report to the expected date of the auditor’s report for the next reporting period.

ISA 570 requires the auditor to consider the appropriateness of management’s going concern for a period of at least twelve months from the date of the financial statements.

The following application and other explanatory material are additional to ISA 570:

- [Aus] Appendix 1 contains an explanatory diagram mapping going concern considerations and types of audit opinions.
- Appendix 2 contains [Aus] Illustration 1A, [Aus] Illustration 2A, [Aus] Illustration 3A and [Aus] Illustration 4A example auditors’ reports that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 570.

AUDITING STANDARD ASA 570

Going Concern

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibilities in the audit of financial report relating to going concern and the implications for the auditor's report. (Ref: Para. A1)
2. Under the going concern basis of accounting, the financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial reports are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial reports may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial reports prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, Australian Accounting Standard AASB 101 requires management to make an assessment of an entity's ability to continue as a going concern.¹ The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

¹ See Australian Accounting Standard AASB 101, *Presentation of Financial Statements*, paragraphs 25–26.

- Aus 3.1 Australian Accounting Standards* require management to make an assessment of an entity's ability to continue as a going concern. In addition, certain legislation, such as the *Corporations Act 2001*[#], requires a formal statement as to the solvency of the entity to be made by those charged with governance and included as part of the financial report upon which the auditor's opinion is expressed.
4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of a financial report as discussed in paragraph 2 of this Auditing Standard, the preparation of the financial report requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgement:
- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgement regarding the outcome of events or conditions.
 - Any judgement about the future is based on information available at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial report does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ASA 200,² the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. [Deleted by the AUASB. Refer Aus 0.3]

* See AASB 101 *Presentation of Financial Statements*.

See, for example, section 295(4) of the *Corporations Act 2001*.

² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraphs A51–A52.

Objectives

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To report in accordance with this Auditing Standard.

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ASA 315³ the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3–A6)
- (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
 - (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and enquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A7)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)
13. [Deleted by the AUASB. Refer Aus 13.1⁴]
- ~~[13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial report as defined in ASA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11–A13)]~~

³ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5.

⁴ See ASA 560 *Subsequent Events*, paragraph 5(a). [Deleted by the AUASB. Refer paragraph's Aus 13.1 and Aus 13.2]⁵ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

- Aus 13.1 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider the relevant period as defined in paragraph Aus 13.2 of this Auditing Standard, which may be the same or may differ from that used by management to make its assessment as required by the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than the relevant period, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)
- Aus 13.2 Relevant period means the period of approximately twelve months from the date of the auditor's current report to the expected date of the auditor's report for:
- the next annual reporting date in the case of an annual financial report; or
 - the corresponding reporting period for the following year in the case of an interim financial reporting period.
14. In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Period beyond Management's Assessment

15. The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14–Aus A15.1)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:
- (Ref: Para. A16)
- Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
 - Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A17)
 - Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)
 - Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - Determining whether there is adequate support for the assumptions underlying the forecast.
 - Considering whether any additional facts or information have become available since the date on which management made its assessment.

- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)

Auditor Conclusions

- 17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report.
- 18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to **continue** as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21–A22)
 - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial report, or
 - (b) In the case of a compliance framework, the financial report not to be misleading.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

- 19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial report:
 - (a) Adequately discloses the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (b) Discloses clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

- 20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial report provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Inappropriate

- 21. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27)

Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Report

22. If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:
- (Ref: Para. A28-A31, A34)
- (a) Draw attention to the note in the financial report that discloses the matters set out in paragraph 19 of this Auditing Standard; and
 - (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report

23. If adequate disclosure about the material uncertainty is not made in the financial report, the auditor shall: (Ref: Para. A32-A34)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ASA 705⁵; and
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.

Management Unwilling to Make or Extend Its Assessment

24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)

Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,⁶ the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:
- (a) Whether the events or conditions constitute a material uncertainty;
 - (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial report;
 - (c) The adequacy of related disclosures in the financial report; and
 - (d) Where applicable, the implications for the auditor's report.

Significant Delay in the Approval of Financial Report

26. If there is significant delay in the approval of the financial report by management or those charged with governance after the date of the financial report, the auditor shall enquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional

⁵ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

⁶ See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

audit procedures necessary, as described in paragraph 16 of this Auditing Standard, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18 of this Auditing Standard.

* * *

Draft

Application and Other Explanatory Material

Scope of this Auditing Standard (Ref: Para 1)

- A1. ASA 701⁷ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That Auditing Standard acknowledges that, when ASA 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.⁸

Going Concern Basis of Accounting (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, Australian Accounting Standard AASB 101 addresses the issue of the ability of public sector entities to continue as going concerns.⁹ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatisation. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 10)

- A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial report.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.

⁷ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

⁸ See ASA 701, paragraphs 15 and A41.

⁹ See AASB 101, *Presentation of Financial Statements*, paragraphs 38–41.

- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities (Ref: Para. 10)

- A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A6. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

- A7. ASA 315 requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.¹⁰ If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ASA 330¹¹ establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.
- A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial report is appropriate in the circumstances.
- A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

The Period of Management's Assessment (Ref: Para. 13–Aus 13.2)

- A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.¹²

Considerations Specific to Smaller Entities (Ref: Para. 12–13)

- A12. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, enquiry and inspection of supporting documentation, for

¹⁰ See ASA 315, paragraph 31.

¹¹ See ASA 330 *The Auditor's Responses to Assessed Risks*.

¹² For example, AASB 101, paragraph 26, defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

- A13. Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favour of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond Management's Assessment (Ref: Para. 15)

- A14. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial report. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.

- A15. [Deleted by the AUASB. Refer Aus A15.1]

~~[A15. Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial report.]~~

- Aus A15.1 Other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph Aus 13.2, is approximately twelve months from the date of the auditors' report on the current financial report.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para. 16)

- A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:
- Analysing and discussing cash flow, profit and other relevant forecasts with management.
 - Analysing and discussing the entity's latest available interim financial report.
 - Reading the terms of debentures and loan agreements and determining whether any have been breached.

- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Enquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

A17. Evaluating management's plans for future actions may include enquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of Management's Assessment (Ref: Para. 16(c))

A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Written Representations (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

Auditor Conclusions

Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 18–19)

A21. The phrase "material uncertainty" is used in Australian Accounting Standard AASB 101 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial

report. In some other financial reporting frameworks, the phrase “significant uncertainty” is used in similar circumstances.

Aus A21.1 Refer to [Aus] Appendix 1 for a diagrammatic illustration of the links between going concern considerations and the types of audit opinions.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists (Ref: Para. 18–19)

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial report not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the entity’s ability to meet its obligations; or
- Significant judgements made by management as part of its assessment of the entity’s ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management’s consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial report provides adequate disclosure about events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management’s evaluation of the significance of those events or conditions in relation to the entity’s ability to meet its obligations;
- Management’s plans that mitigate the effect of these events or conditions; or
- Significant judgements made by management as part of its assessment of the entity’s ability to continue as a going concern.

A25. When the financial report is prepared in accordance with a fair presentation framework, the auditor’s evaluation as to whether the financial report achieves fair presentation includes the consideration of the overall presentation, structure and content of the financial report, and whether the financial report, including the related notes, represent the underlying transactions

and events in a manner that achieves fair presentation.¹³ Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 21)

- A26. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the financial report is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial report includes disclosure of the inappropriateness of management's use of the going concern basis of accounting.
- A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial report on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of that financial report provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on that financial report, provided there is adequate disclosure therein about the basis of accounting on which the financial report is prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ASA 706¹⁴ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists (Ref: Para. 22–23)

- A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial report. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.
- A29. Appendix 2 provides illustrations of the statements that are required to be included in the auditor's report on the financial report when Australian Accounting Standards are the applicable financial reporting framework. If an applicable financial reporting framework other than Australian Accounting Standards is used, the illustrative statements presented in Appendix 2 may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.
- A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:
- That the existence of a material uncertainty is fundamental to users' understanding of the financial report;¹⁵ or
 - How the matter was addressed in the audit. (Ref: Para. A1)

¹³ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 14.

¹⁴ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

¹⁵ See ASA 706, paragraph A2.

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Report (Ref: Para. 22)

- A31. [Aus] Illustration 1A of Appendix 2 is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial report. The Appendix of ASA 700 also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Report (Ref: Para. 23)

- A32. [Aus] Illustrations 2A and 3A of Appendix 2 are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial report.
- A33. In situations involving multiple uncertainties that are significant to the financial report as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ASA 705 provides guidance on this issue.¹⁶

- Aus A33.1 [Aus] Illustration 4A of Appendix 2 is an example of an auditor's report containing a disclaimer of opinion, when the auditor has not obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting.

Communication with Regulators (Ref: Para. 22–23)

- A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

- A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial report, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

- Aus A35.1 An auditor required under the *Corporations Act 2001*^{*} (the Act) to notify the Australian Securities and Investments Commission (ASIC) if the auditor, when conducting an audit, becomes aware of certain circumstances specified in the Act. ASIC[#] provides guidance to help auditors comply with their obligations under the *Corporations Act 2001*, such as reporting suspected insolvent trading.

¹⁶ See ASA 705, paragraph 10.

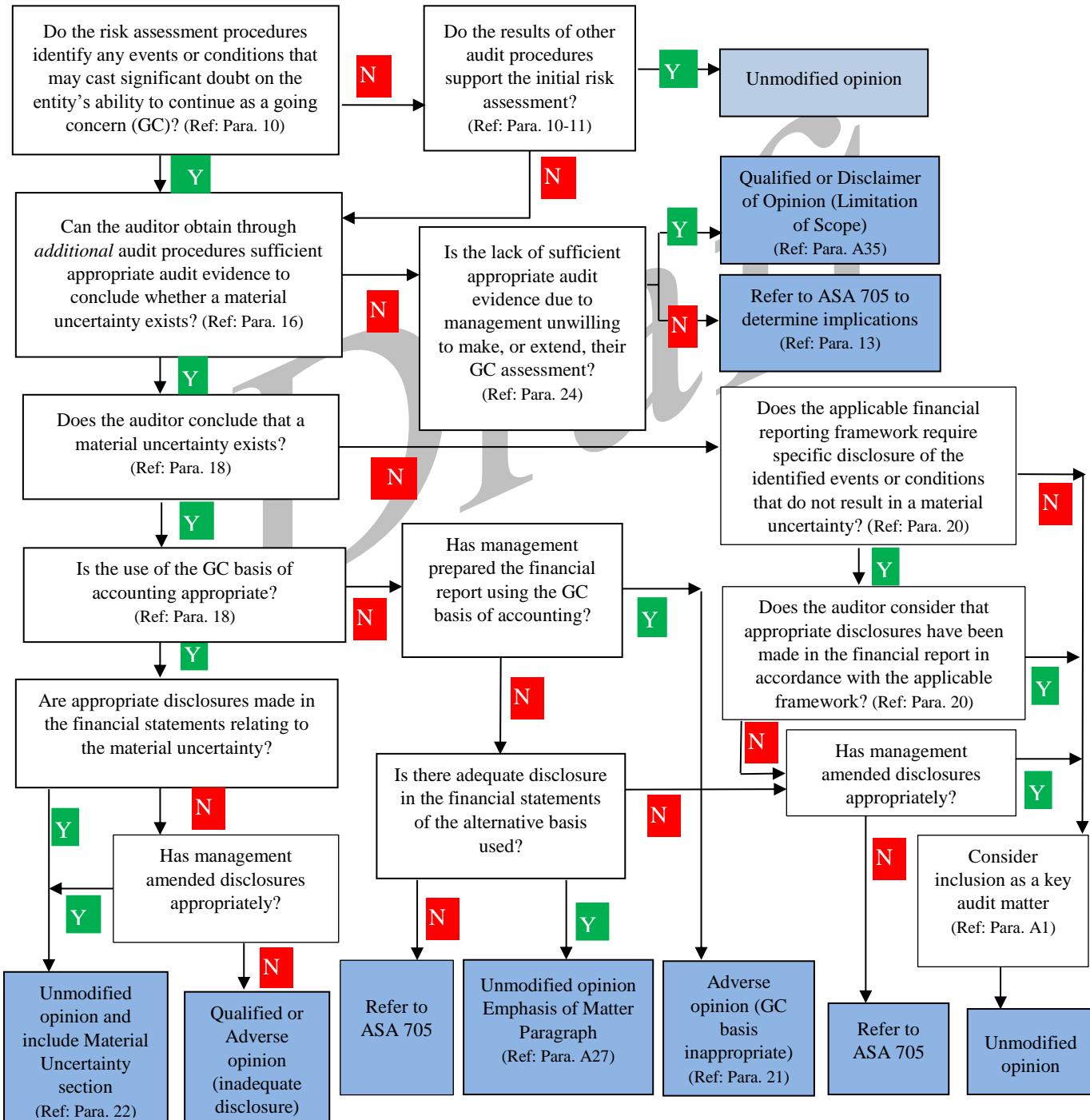
^{*} See section 311 of the *Corporations Act 2001*.

[#] See, for example, ASIC Regulatory Guide 34 *Auditors' obligations: Reporting to ASIC* (May 2013).

[Aus] Appendix 1

(Ref: Para. Aus A21.1)

LINKING GOING CONCERN CONSIDERATIONS AND TYPES OF AUDIT OPINIONS



Note: Audit opinions in this diagram must comply, as appropriate, with: ASA 700 *Forming an Opinion and Reporting on a Financial Report*, ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Appendix 2

(Ref: Para. A29, A31-A32, Aus A33.1)

Illustrations of Auditor's Reports Relating to Going Concern

- Illustration 1: [Deleted by the AUASB. Refer [Aus] Illustration 1A]
- [Aus] Illustration 1A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial report is adequate.
- Illustration 2: [Deleted by the AUASB. Refer [Aus] Illustration 2A]
- [Aus] Illustration 2A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial report is materially misstated due to inadequate disclosure.
- Illustration 3: [Deleted by the AUASB. Refer [Aus] Illustration 3A]
- [Aus] Illustration 3A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial report omits the required disclosures relating to a material uncertainty.
- [Aus] Illustration 4A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* containing a disclaimer of opinion (limitation of scope) when the auditor has been unable to obtain sufficient appropriate audit evidence about the company's ability to continue as a going concern.

Example Auditor's Report
Unmodified Opinion, Material Uncertainty Exists, Adequate Disclosure
Single Company-*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 1A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.†
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. The disclosure of the material uncertainty in the financial report is adequate.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[§]

Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

See ASA 210 *Agreeing the Terms of Audit Engagements*.

§ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion:

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 20X1, and of its 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., would be on 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial report, which indicates that the Company incurred a net loss of ZZZ during the year ended 30 June 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Other Information

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

Responsibilities of the Directors for the Financial Report

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

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*]

Auditor's Responsibilities for the Audit of the Financial Report

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

Report on the Remuneration Report[#]

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

[Auditor's name and signature][†]

[Date of the auditor's report]

[Auditor's Address]

Draft

* Paragraphs 33 and 38 of ASA 700 require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

[#] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44 of ASA 700. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

[†] The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324 AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

Example Auditor's Report
Qualified Opinion, Material Uncertainty Exists, Inadequate Disclosure
Single Listed Company-*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210#.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. Note yy to the financial report discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial report does not include discussion on the impact or the availability of refinancing or characterise this situation as a material uncertainty.
- The financial report is materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial report of this inadequate disclosure are material but not pervasive to the financial report.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.
See ASA 210 *Agreeing the Terms of Audit Engagements*.

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), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

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

Basis for Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on 19 August 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this matter.

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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., would be on 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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified*

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*]

Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Descriptions of each key audit matter in accordance with ASA 701.]

Other Information

[Reporting in accordance with revised ISA 720 – see Illustration 6 in Appendix 2 of ISA 720. The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information. ^{*}]

Responsibilities of the Directors for the Financial Report

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

Auditor's Responsibilities for the Audit of the Financial Report

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

Report on the Remuneration Report[†]

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

[Auditor's name and signature][§]

[Date of the auditor's report]

[Auditor's Address]

^{*} Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

[#] Paragraphs 33 and 38 of ASA 700 require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial report and the auditor in relation to going concern.

[†] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44 of ASA 700. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

[§] The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

Example Auditor's Report
Adverse Opinion, Material Uncertainty Exists, Inadequate Disclosure
Single listed Company-*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 3A:

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210#.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and the company is considering bankruptcy. The financial report omits the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial report of such omission are material and pervasive.
- ASA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[§]

Adverse Opinion

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

See ASA 210 *Agreeing the Terms of Audit Engagements*.

§ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the financial of ABC Company Ltd., is not in accordance with the *Corporations Act 2001* and does not:

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

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on 30 June 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not adequately disclose this fact.

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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 ABC Company Ltd., would be on 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 adverse opinion.

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

[*Reporting in accordance with revised ISA 720 – see Illustration 7 in Appendix 2 of ISA 720. The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.*†]

Responsibilities of the Directors for the Financial Report

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

Auditor's Responsibilities for the Audit of the Financial Report

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

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*]

Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

Report on the Remuneration Report[†]

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

[Auditor's name and signature]^{}*

[Date of the auditor's report]

[Auditor's Address]

Draft

[†] The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44 of ASA 700. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor’s report. Under paragraph 42 of ASA 700, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

^{*} The auditor is required to sign the auditor’s report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

Example Auditor's Report
Disclaimer of Opinion (Limitation of Scope)
Single listed Company-*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 4A:

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.#
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- The auditor is unable to obtain sufficient appropriate audit evidence about the company's ability to continue as a going concern as the directors have refused to extend their going concern assessment up to the relevant period (limitation of scope).
- The auditor is not permitted to communicate key audit matters in accordance with ASA 705.†
- The auditor does not include an other information section in accordance with revised ISA 720.‡
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[‡]

Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report of ABC Company (the Company).

Basis for Disclaimer of Opinion

The Company's financing arrangements expired and the amount outstanding was payable on 30 June 20X1. The Company has been unable to conclude re-negotiations to obtain replacement financing. The directors have refused to extend their assessment of the Company's ability to continue as a going concern beyond 30 September 20X1 given the uncertainty of obtaining suitable replacement

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

See ASA 210 *Agreeing the Terms of Audit Engagements*.

† See ASA 705, paragraph 29.

‡ Paragraph A54 of revised ISA 720, *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include a other information section when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

§ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

financing. We have been unable to obtain alternative evidence which would provide sufficient appropriate audit evidence as to whether the Company may be able to obtain such financing, and hence remove significant doubt of its ability to continue as a going concern within twelve months of the date of this auditor's report.

Responsibilities of the Directors for the Financial Report

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

Auditor's Responsibilities for the Audit of the Financial Report

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

Report on the Remuneration Report[#]

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

[Auditor's name and signature][#]

[Date of the auditor's report]

[Auditor's Address]

Draft

[#] The Report on the Remuneration Report is an example of “Other Reporting Responsibilities”—refer paragraphs 42-44 of ASA 700. Any additional “Other Reporting Responsibilities” that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42 of ASA 700, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section is used.

[#] The auditor is required to sign the auditor's report in both their own name and the name of their firm [section 324AB(3) of the *Corporations Act 2001*] or the name of the audit company [section 324AD(1) of the *Corporations Act 2001*], as applicable.

ASA 260
(xxx 2015)

Auditing Standard ASA 260

Communication With Those Charged With Governance

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

Draft

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This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 260

The AUASB issues Auditing Standard ASA 260 *Communication With Those Charged With Governance* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard represents the Australian equivalent of revised ISA 260 *Communication With Those Charged With Governance* (January 2015) and will replace the current ASA 260 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 260, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 260 *Communication With Those Charged With Governance* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 260 *Communication With Those Charged With Governance* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent) are identified with the prefix “Aus”.

The following requirement is additional to ISA 260:

- In the case of entities audited in accordance with the *Corporations Act 2001*, the auditor shall communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable network firms, have complied with the independence requirements of section 307C of the *Corporations Act 2001*.

(Ref: Para. Aus 17.1)

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 260 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 260.

AUDITING STANDARD ASA 260

Communication With Those Charged With Governance

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) 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
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. Although this Auditing Standard applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This Auditing Standard does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.
2. This Auditing Standard is written in the context of an audit of the financial report, but may also be applicable, as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.
3. Recognising the importance of effective two-way communication in an audit of a financial report, this Auditing Standard provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this Auditing Standard, are identified in other Australian Auditing Standards (see Appendix 1 of this Auditing Standard). In addition, ASA 265¹ establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other Australian Auditing Standards, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement. Nothing in this Auditing Standard precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33–A36)

¹ See ASA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

The Role of Communication

4. This Auditing Standard focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:
 - (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
 - (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
 - (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial report.
5. Although the auditor is responsible for communicating matters required by this Auditing Standard, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.
6. Clear communication of specific matters required to be communicated by Australian Auditing Standards is an integral part of every audit. Australian Auditing Standards do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

Effective Date

8. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

9. The objectives of the auditor are:
 - (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial report audit, and an overview of the planned scope and timing of the audit;
 - (b) To obtain from those charged with governance information relevant to the audit;
 - (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

- (d) To promote effective two-way communication between the auditor and those charged with governance.

Definitions

10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Those charged with governance – The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8 of this Auditing Standard.
 - (b) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

Requirements

Those Charged with Governance

11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1–A4)

Communication with a Subgroup of Those Charged with Governance

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5–A7)

When All of Those Charged with Governance Are Involved in Managing the Entity

13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this Auditing Standard are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c) of this Auditing Standard. The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Report Audit

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial report audit, including that:
- (a) The auditor is responsible for forming and expressing an opinion on the financial report that has been prepared by management with the oversight of those charged with governance; and

- (b) The audit of the financial report does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

Planned Scope and Timing of the Audit

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)

- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial reporting disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
- (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
- (c) Unless all of those charged with governance are involved in managing the entity:
- (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
- (ii) Written representations the auditor is requesting;
- (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)
- (e) Any other significant matters arising during the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial report for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
- (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)

- Aus 17.1 In the case of entities audited in accordance with the *Corporations Act 2001*, the auditor shall communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable

network firms, have complied with the independence requirements of section 307C of the *Corporations Act 2001*.

The Communication Process

Establishing the Communication Process

18. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37–A45)

Forms of Communication

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgement, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48)
20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17 of this Auditing Standard.

Timing of Communications

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)

Adequacy of the Communication Process

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A51–A53)

Documentation

23. Where matters required by this Auditing Standard to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.² (Ref: Para. A54)

* * *

² See ASA 230 *Audit Documentation*, paragraphs 8–11, and A6.

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

- A1. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
- In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a “two-tier board” structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a “one-tier board” structure).
 - In some entities, those charged with governance hold positions that are an integral part of the entity’s legal structure, for example, company directors. In others, for example, some public sector entities, a body that is not part of the entity is charged with governance.
 - In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
 - In some cases, those charged with governance are responsible for approving³ the entity’s financial report (in other cases management has this responsibility).
- A2. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.
- A3. Such diversity means that it is not possible for this Auditing Standard to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some owner-managed entities, some not-for-profit organisations, and some public sector entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor’s understanding of an entity’s governance structure and processes obtained in accordance with ASA 315⁴ is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.
- A4. ASA 600 includes specific matters to be communicated by group auditors with those charged with governance.⁵ When the entity is a component of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (e.g.,

³ As described in paragraph A63 of ASA 700 *Forming an Opinion and Reporting on a Financial Report*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial report, including the related notes, have been prepared.

⁴ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

⁵ See ASA 600 *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*, paragraph 49.

common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

Communication with a Subgroup of Those Charged with Governance (Ref: Para. 12)

- A5. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:
- The respective responsibilities of the subgroup and the governing body.
 - The nature of the matter to be communicated.
 - Relevant legal or regulatory requirements.
 - Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.
- A6. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.
- A7. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:
- The auditor will be invited to regularly attend meetings of the audit committee.
 - The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
 - The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para. 13)

- A8. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial report).

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Report Audit (Ref: Para. 14)

- A9. The auditor's responsibilities in relation to the financial report audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement.⁶ Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the engagement with the auditor. When this is

⁶ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 10.

not the case, providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:

- The auditor's responsibility for performing the audit in accordance with Australian Auditing Standards, which is directed towards the expression of an opinion on the financial report. The matters that Australian Auditing Standards require to be communicated, therefore, include significant matters arising during the audit of the financial report that are relevant to those charged with governance in overseeing the financial reporting process.
 - The fact that Australian Auditing Standards do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
 - When ASA 701⁷ applies, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report.
 - When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement.
- A10. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial report audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

Planned Scope and Timing of the Audit (Ref: Para. 15)

- A11. Communication regarding the planned scope and timing of the audit may:
- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
 - (b) Assist the auditor to understand better the entity and its environment.
- A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.
- A13. Matters communicated may include:
- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
 - How the auditor plans to address areas of higher assessed risks of material misstatement.
 - The auditor's approach to internal control relevant to the audit.
 - The application of the concept of materiality in the context of an audit.⁸

⁷ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

- The nature and extent of specialised skill or knowledge needed to perform the planned⁸ audit procedures or evaluate the audit results, including the use of an auditor's expert.⁹
 - When ASA 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:
- [Deleted by the AUASB. Refer Aus A14.1]
~~[Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.]~~
- Aus A14.1 Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function.¹⁰
- The views of those charged with governance of:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications with regulators.
 - Other matters those charged with governance consider may influence the audit of the financial report.
 - The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.
 - The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.
 - The responses of those charged with governance to previous communications with the auditor.
- A15. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish

⁸ See ASA 320 *Materiality in Planning and Performing an Audit*.

⁹ See ASA 620 *Using the Work of an Auditor's Expert*.

¹⁰ See ASA 610 *Using the Work of Internal Auditors*, paragraph 20.

the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

- A16. Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

Significant Findings from the Audit (Ref: Para. 16)

- A17. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
- A18. When ASA 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.¹¹

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

- A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial report disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgements made by management in preparing the financial report.
- A20. As a result, the auditor's views on the subjective aspects of the financial report may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

- A21. Significant difficulties encountered during the audit may include such matters as:
- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
 - An unreasonably brief time within which to complete the audit.
 - Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
 - The unavailability of expected information.

¹¹ See ASA 701, paragraphs 9–10.

- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.¹²

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(c)(i))

A22. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.
- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

A23. ASA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.¹³ The agreed terms of the audit engagement are required to be recorded in an audit engagement letter or other suitable form of written agreement and include, among other things, reference to the expected form and content of the auditor's report.¹⁴ As explained in paragraph A9, if the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit. The communication required by paragraph 16(d) is intended to inform those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

A24. Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the Australian Auditing Standards, and for which communication with those charged with governance is required, include when:

- The auditor expects to modify the opinion in the auditor's report in accordance with ASA 705.¹⁵
- A material uncertainty related to going concern is reported in accordance with ASA 570.¹⁶
- Key audit matters are communicated in accordance with ASA 701.¹⁷

¹² See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

¹³ See ASA 210, paragraph 9.

¹⁴ See ASA 210, paragraph 10.

¹⁵ See ASA 705, paragraph 30.

¹⁶ See ASA 570 *Going Concern*, paragraph 25(d).

- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matters paragraph in accordance with ASA 706¹⁸ or is required to do so by other Australian Auditing Standards.

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

- A25. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report in accordance with ASA 700, the auditor is required to discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.¹⁹ The auditor also may communicate with those charged with governance in circumstances when the auditor elects not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by ASA 700.²⁰

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

- A26. ASA 300²¹ notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.
- A27. Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial report that have been corrected.
- A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with ASA 220.²²

Auditor Independence (Ref: Para. 17)

- A29. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements.²³
- A30. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:
- Threats to independence, which may be categorised as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
 - Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.
- A31. [Deleted by the AUASB. Refer Aus A31.1]

¹⁷ See ASA 701, paragraph 17.

¹⁸ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12.

¹⁹ See ASA 700, paragraphs A45 and A58.

²⁰ See ASA 700, paragraph 40.

²¹ See ASA 300, *Planning an Audit of a Financial Report*, paragraph A13.

²² See paragraphs 19–22 and A23–A32 of ASA 220, *Quality Control for an Audit of a Financial Report*.

²³ See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* paragraph 14.

Aus A31.1 Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified.*

A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and superannuation funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial report audit.

Supplementary Matters (Ref: Para. 3)

- A33. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- A34. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorisation.
- A35. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.
- A36. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:
- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial report;
 - (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial report; and
 - (c) No procedures were carried out to determine whether other such matters exist.

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

- A37. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A38. Matters that may also contribute to effective two-way communication include discussion of:

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form in which communications will be made.
- The person(s) in the engagement team and among those charged with governance who will communicate regarding particular matters.
- The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
- The process for taking action and reporting back on matters communicated by the auditor.
- The process for taking action and reporting back on matters communicated by those charged with governance.

A39. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A52).

Considerations Specific to Smaller Entities

A40. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

- A41. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this Auditing Standard to be communicated with those charged with governance. Such discussions recognise management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial report.
- A42. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognising management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

- A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
 - (b) That no responsibility is assumed by the auditor to third parties; and
 - (c) Any restrictions on disclosure or distribution to third parties.
- A44. In some jurisdictions the auditor may be required by law or regulation to, for example:
- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action;
 - Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
 - Make reports prepared for those charged with governance publicly available.
- Aus A44.1 An auditor is required under the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances.*
- A45. Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

Forms of Communication (Ref: Para. 19)

- A46. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19–20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.
- A47. In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarisation in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:
- Whether a discussion of the matter will be included in the auditor's report. For example, when key audit matters are communicated in the auditor's report, the auditor may consider it necessary to communicate in writing about the matters determined to be key audit matters.
 - Whether the matter has been satisfactorily resolved.
 - Whether management has previously communicated the matter.
 - The size, operating structure, control environment, and legal structure of the entity.
 - In the case of an audit of special purpose financial reports, whether the auditor also audits the entity's general purpose financial reports.

* See ASIC Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* (May 2013), which provides guidance to help auditors comply with their obligations under section 311, 601 HG and 990K of the *Corporations Act 2001* to report contraventions and suspected contraventions to ASIC.

- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by law.
 - The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
 - The amount of ongoing contact and dialogue the auditor has with those charged with governance.
 - Whether there have been significant changes in the membership of a governing body.
- A48. When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarise the matter in later communications so that all of those charged with governance have full and balanced information.
- Timing of Communications* (Ref: Para. 21)
- A49. Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:
- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
 - It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by ASA 265.²⁴
 - When ASA 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.
 - Communications regarding independence may be appropriate whenever significant judgements are made about threats to independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
 - Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.
 - When auditing both general purpose and special purpose financial reports, it may be appropriate to co-ordinate the timing of communications.
- A50. Other factors that may be relevant to the timing of communications include:
- The size, operating structure, control environment, and legal structure of the entity being audited.

²⁴ See ASA 265, paragraphs 9 and A14.

- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

Adequacy of the Communication Process (Ref: Para. 22)

- A51. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:
- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to enquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
 - The apparent openness of those charged with governance in their communications with the auditor.
 - The willingness and capacity of those charged with governance to meet with the auditor without management present.
 - The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.
 - Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
 - Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
 - Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.
- A52. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ASA 315 identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.²⁵ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial report.
- A53. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

²⁵ See ASA 315, paragraph A77.

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Documentation (Ref: Para. 23)

- A54. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

Draft

Appendix 1

(Ref: Para. 3)

Specific Requirements in ASQC 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ASQC 1²⁶ and other Australian Auditing Standards that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ASA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* – paragraphs 21, 38(c)(i) and 40-42
- ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report* – paragraphs 14, 19 and 22–24
- ASA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ASA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ASA 505, *External Confirmations* – paragraph 9
- ASA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ASA 550, *Related Parties* – paragraph 27
- ASA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ASA 570, *Going Concern* – paragraph 25
- ASA 600, *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* – paragraph 49
- ASA 610 *Using the Work of Internal Auditors* – paragraph 20
- ASA 700, *Forming an Opinion and Reporting on a Financial Report* – paragraph 45
- ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ASA 705, *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ASA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ASA 710, *Comparative Information—Corresponding Figures and Comparative Financial Reports* – paragraph 18
- ASA 720, *The Auditor's Responsibilities Relating to Other Information* – paragraphs 10, 13 and 16

²⁶ See ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, and Other Assurance and Related Services Engagements*.

Appendix 2

(Ref: Para. 16(a), A19-A20)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial report. Where acceptable alternative accounting policies exist, the communication may include identification of the financial report items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in ASA 540,²⁷ including, for example:
 - How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report.
 - Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
 - Whether management's decision to recognise, or to not recognise, the accounting estimates in the financial report is in accordance with the applicable financial reporting framework.
 - Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.
 - Management's process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.
 - Whether the significant assumptions used by management in developing the accounting estimate are reasonable.

²⁷ See ASA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

- Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.
- Risks of material misstatement.
- Indicators of possible management bias.
- How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- The adequacy of disclosure of estimation uncertainty in the financial report.

Financial Report Disclosures

- The issues involved, and related judgements made, in formulating particularly sensitive financial report disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial report.

Related Matters

- The potential effect on the financial report of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial report.
- The extent to which the financial report is affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. This communication may highlight:
 - The non-recurring amounts recognised during the period.
 - The extent to which such transactions are separately disclosed in the financial report.
 - Whether such transactions appear to have been designed to achieve a particular accounting or tax treatment, or a particular legal or regulatory objective.
 - Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
 - Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial report.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

ASA 2015-1
(xxx 2015)

Auditing Standard ASA 2015-1

Amendments to Australian Auditing Standards

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

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Australian Government
Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 2015-1

The AUASB issues Auditing Standard ASA 2015-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government 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 Features

This Auditing Standard makes amendments to the following Auditing Standards:

- | | |
|---------|--|
| ASA 210 | <i>Agreeing the Terms of Audit Engagements</i> (27 October 2009, as amended) |
| ASA 220 | <i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i> (27 October 2009, as amended) |
| ASA 230 | <i>Audit Documentation</i> (27 October 2009, as amended) |
| ASA 510 | <i>Initial Audit Engagements-Opening Balances</i> (27 October 2009, as amended) |
| ASA 540 | <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> (27 October 2009, as amended) |
| ASA 580 | <i>Written Representations</i> (27 October 2009, as amended) |
| ASA 600 | <i>Special Considerations-Audits of a Group Financial Report</i>
(Including the Work of Component Auditors) (27 October 2009, as amended) |
| ASA 710 | <i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i>
(27 October 2009, as amended) |

The amendments to the Australian Auditing Standards comprise auditor reporting related consequential changes arising from the proposed revision of:

- ASA 700 *Forming an Opinion and Reporting on a Financial Report*;
- ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*;
- ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
- ASA 260 *Communication with Those Charged with Governance*;
- ASA 570 *Going Concern*; and

the proposed issuance of new Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, as well as changes the AUASB has identified through its

Auditing Standard ASA 2015-1
Amendments to Australian Auditing Standards

review of existing modifications from the equivalent ISAs (i.e. “Aus” paragraphs) where the compelling reasons test has not been met.

The amendments to the Australian Auditing Standards in respect of auditor reporting conforming amendments arise from conforming amendments made by the International Auditing and Assurance Standards Board (IAASB) as part of the new and revised auditor reporting enhancements to the International Standards on Auditing (ISAs). 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 and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard *ASA 2015-1 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*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with Australian Auditing Standards

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of existing Auditing Standards and the introduction of one new Auditing Standard that relate to auditor reporting. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

AUDITING STANDARD ASA 2015-1

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. The amendments to the Australian Auditing Standards comprise auditor reporting related consequential changes arising from the proposed revision of:
 - ASA 700 *Forming an Opinion and Reporting on a Financial Report*;
 - ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*;
 - ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
 - ASA 260 *Communication with Those Charged with Governance*;
 - ASA 570 *Going Concern*; andthe proposed issuance of ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, as well as changes identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met.
5. This Auditing Standard uses underlining, striking out and other typographical material to identify the amendments to Auditing Standards, in order to make the amendments more understandable. Amendments made to text contained in footnotes are shown within the footnotes and underlining and striking out are also used to identify amendments. However, the amendments made by this Auditing Standard do not include that underlining, striking out or other typographical material.

Objective

6. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009, as amended)

- (b) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (27 October 2009, as amended)
- (c) ASA 230 *Audit Documentation* (27 October 2009, as amended)
- (d) ASA 510 *Initial Audit Engagements-Opening Balances* (27 October 2009, as amended)
- (e) ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (27 October 2009, as amended)
- (f) ASA 580 *Written Representations* (27 October 2009, as amended)
- (g) ASA 600 *Special Considerations-Audits of a Group Financial Report* (Including the Work of Component Auditors) (27 October 2009, as amended)
- (h) ASA 710 *Comparative Information-Corresponding Figures and Comparative Financial Reports* (27 October 2009, as amended)

Definition

7. 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 210

8. Paragraph 6(b) is updated as follows:

...

(Ref: Para. A11-A14, A20-Aus A20.1)

9. Paragraph 10(e) is amended to read as follows:

...

Reference to the expected form and content of any reports to be issued by the auditor; and
(Ref: Para. A24)

10. The third bullet point of paragraph A23 is amended to read as follows:

...

- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ASA 701.¹

11. A new paragraph A24 is inserted as follows:

When the auditor is not required to communicate key audit matters, it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

¹ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

12. As a result of the change made in paragraph 13 of this Auditing Standard, subsequent paragraph references are re-numbered and refers to these paragraphs are updated accordingly.
13. Appendix 1 is amended to read as follows:

...

The objectives of our audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

...

.. and As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the planning and performing of the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves We also:

- performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- In making our risk assessments, we obtain an understanding of consider internal control relevant to the Company's preparation of the financial report audit in order to.²
- An audit also includes evaluating Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, as well as
- Conclude on the appropriateness of management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluating Evaluate 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.

...

² This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial report.

Amendments to ASA 220

14. Paragraph 4 is amended to read as follows:

...
...(Ref: Para. A2-Aus A2.1)
15. Paragraph 20(d) is amended to read as follows:

...
(d) (Ref: Para. A26-A28, A29-A31)
16. Footnote 4 is amended to remove the comma after the phrase “paragraph Aus 12.1.”
17. Paragraph Aus A5.1 is amended to read as follows:

Examples of independence requirements that may be applicable are addressed in the *Corporations Act 2001*, Part 2M.3, Division 3, and the relevant ethical requirements[#] in ASA 102.
18. Paragraph Aus A6.2 is deleted.
19. New Paragraph A28 is inserted after existing Paragraph A27 as follows: (subsequent paragraphs references are renumbered upwards by one)

When ASA 701³ applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:

 - The key audit matters to be included in the auditor's report;
 - The key audit matters that will not be communicated in the auditor's report in accordance with paragraph 14 of ASA 701, if any; and
 - If applicable, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report.

In addition, the review of the proposed auditor's report in accordance with paragraph 20(b) includes consideration of the proposed wording to be included in the Key Audit Matters section.

Amendments to ASA 230

20. The Conformity Statement section is updated to reflect there is only one conforming difference with the IAASB (requirement paragraph Aus 16.1 having been deleted below).

The following requirements are is additional to ISA 230:

 - The auditor shall adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation.
[Paragraph Aus 16.1]
21. The effective date for the illustrative examples contained in Appendix 1 is amended to delete the wording “in effect for audits of financial reports periods beginning on or after 1 January 2010...” to ensure consistency of effective date with the conforming amendments.
22. Paragraph 15 is updated as follows:

[#] See ASA 102.

³ See ASA 701, Communicating Key Audit Matters in the Independent Auditor's Report.

...(Ref: Para. A23-Aus A23.2)

23. The heading directly below paragraph 16(b), titled “Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of the Audit Documentation” is deleted.
24. Paragraph Aus 16.1 is deleted.
25. A fourth bullet point in paragraph A10 is now included to read as follows:

...

 - When ASA 701 applies⁴, the auditor’s determination of the key audit matters or the determination that there are no key audit matters to be communicated.
26. The heading directly below paragraph A24, titled “Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of the Audit Documentation (Ref: Para. Aus 16.1)” is deleted.
27. Paragraph Aus A24.1 is deleted.

Amendments to ASA 510

28. Paragraph A8(b) is amended to read as follows:

[Deleted by the AUASB. Refer [Aus] Illustration 2A.]
29. Appendix 1 is amended to read as follows:

Illustrations of Auditors’s Reports with Modified Opinions

Note: Throughout these illustrative auditor’s reports, the Opinion section has been positioned first in accordance with ASA 700, and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor’s responsibilities section is now subsumed as part of the new Basis for Opinion section.

Illustration 1:

For purposes of this illustrative auditor’s report, the following circumstances described in paragraph A8(a) include the following are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600⁵ does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial report in ASA 210.⁶
-
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s

⁴ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

⁵ See ASA 600, *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

⁶ See ASA 210, *Agreeing the Terms of Audit Engagements*.

ability to continue as a going concern in accordance with ASA 570.⁷

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.⁸
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial report was audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.
- The financial report is not prepared under the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁹

Qualified Opinion

We have audited the accompanying financial report of ABC Entity (the Entity), and notes to the financial statements, comprising including a summary of significant accounting policies...

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report paragraph, the accompanying financial report presents fairly, in all material respects, (or gives a true and fair view of) the financial position of the ABC Entity...

Basis for Qualified Opinion

....

Our responsibility is to express an opinion on the financial report based on our audit. 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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

Other Matter

The financial report of the ABC Entity ...

Other Information

[*Reporting in accordance with revised ISA 720.*[#]]

⁷ See ASA 570, *Going Concern*.

⁸ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

^{*} See revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015].

⁹ The sub-title "Report on the *Audit of the Financial Report*"...

Responsibilities of Management¹⁰s and Those Charged with Governance Responsibility for the Financial Report

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

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation¹¹ of the financial report 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 Entity's internal control.¹² An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

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

Report on Other Legal and Regulatory Requirements

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

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances described in paragraph A8(a) include the following are assumed:

- Audit of a financial report of a single listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600¹³ does not apply).

¹⁰ Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See revised ISA 720, Appendix 2, Illustration 6, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.

¹¹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹² In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control."

¹³ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

¹⁴ See ASA 600, *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and the financial report is prepared under the Corporations Act 2001.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.¹⁴
-
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.¹⁵
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.¹⁶
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.*
- Corresponding figures are presented, and the prior period's financial report was audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.
- The financial report is not prepared under the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company Ltd. [or Other Appropriate Addressee]

Qualified Opinion

We have audited the accompanying financial report of ABC Entity Company Ltd., (the Company) ... and notes to the financial statements, comprising including a summary of significant accounting policies...

In our opinion,... *Basis for Qualified Opinion* section of our report paragraph, the accompanying financial report of ABC Entity Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's [registered scheme/disclosing Entity]'s...

Basis for Qualified Opinion

....
Our responsibility is to express an opinion on the financial report based on our audit. 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical

¹⁴ See ASA 210, *Agreeing the Terms of Audit Engagements*.

¹⁵ See ASA 570, *Going Concern*.

¹⁶ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

* See revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* [as issued by the IAASB on 9 April 2015].

requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

Other Matter

The financial report of the ABC Entity Company...

Other Information

[Reporting in accordance with revised ISA 720.[#]]

Responsibilities of the Directors Responsibility for the Financial Report

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

~~The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

~~Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation¹⁷ of the financial report 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 Entity's internal control.¹⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.~~

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

Report on the Remuneration Report*

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

[#] Paragraph 22 of revised ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See revised ISA 720, Appendix 2, Illustration 6, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.

¹⁷ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control."

¹⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Auditing Standard ASA 2015-1 *Amendments to Australian Auditing Standards*

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Amendments to ASA 540

30. Paragraph 23 is amended to read as follows:
 - (a)...significant risks; and
 - (b)...(Ref: Para. A128); and
31. Paragraph Aus 23.1 is deleted.
32. Paragraph Aus A7.1 bullet point is deleted.
33. Paragraph A114 is amended to read as follows:

~~...Where applicable, Tthe auditor may also determine that there is a need to draw the reader's attention to that an accounting estimate that has been identified as having a high significant estimation uncertainty by adding an Emphasis of Matter paragraph to the auditor's report is a key audit matter to be communicated in the auditor's report in accordance with ASA 701,¹⁹ or may consider it necessary to include an Emphasis of Matter paragraph in the auditor's report (see ASA 706).²⁰ establishes requirements and provides guidance concerning such paragraphs. If the matter is determined to be a key audit matter, ASA 706 prohibits the auditor from including an Emphasis of Matter paragraph in the auditor's report.²¹~~

34. Paragraph Aus A124.1 and its related footnote are deleted.
35. The Conformity Statement section is updated to reflect there are no longer any conforming differences with the IAASB (requirement paragraph Aus 23.1 having been deleted above).

~~The following requirement is addition to ISA 540:~~

- ~~The auditor has include in the audit documentation:~~
 - ◆ ~~The auditor's evaluation of any indicators of possible management bias in making accounting estimates, including whether the circumstances giving risk to the indicators of bias represent a risk of material misstatement due to fraud.~~
[Ref: Para. Aus 23.1]

Amendments to ASA 580

36. Paragraph A1 (directly below the heading "Management from whom Written Representations are Requested (Ref: Para. 9)" is renumbered as paragraph A2 and all following paragraph references renumbered upwards by one.
37. Paragraph Aus A20.1 is deleted.
38. The effective date for the illustrative examples contained in Appendix 1 are amended to delete the wording "in effect for audits of financial reports for periods beginning on or after 1 January 2010..." for consistency of effective date with the conforming amendments.

Amendments to ASA 600

39. The heading directly below paragraph 49(e) titled "Reporting Considerations" is deleted.

¹⁹ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

²⁰ See ASA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

²¹ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8(b).

Auditing Standard ASA 2015-1
Amendments to Australian Auditing Standards

40. Paragraph Aus 49.1 is deleted.

41. Paragraph Aus A65.1 is deleted.

42. Appendix 1 is amended to read as follows:

Under the heading “Illustrations of Auditors’ Reports with Modifications to the Opinion-General Purpose Financial Reports”

...[Aus] Illustration 1A...

Note: Throughout these illustrative auditors’ reports, the Opinion section has been positioned first in accordance with ASA 700, and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor’s responsibilities section is now subsumed as part of the new Basis for Opinion section.

...

Illustration 1 For purposes of this illustrative auditor's report, the following circumstances are assumed ~~Circumstance include the following:~~

- ~~Audit of a general purpose financial report prepared by management of the Entity the financial statements are prepared in accordance with Australian Accounting Standards.~~
- ~~Audit of a consolidated financial report of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of a company with subsidiaries (i.e., ASA 600 applies). The financial report is not prepared under the *Corporations Act 2001*. The consolidated financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).~~
- ~~The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial report in ASA 210.~~
- ~~In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method (recognised at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.~~
- ~~The group engagement team has read the audited financial report of the component as at 30 June 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.~~
- ~~In the group engagement partner's judgement, the effect on the group financial report of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.~~
- The group engagement team is unable to obtain sufficient appropriate audit evidence.....
- ...
- ~~The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.~~
- ...
- ~~The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.~~
- ~~In addition to the audit of the consolidated financial report, the auditor has other reporting responsibilities required under local law.~~

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report

Qualified Opinion

We have audited the ~~accompanying~~ consolidated financial report of ABC Entity Company (the Company), including its ~~subsidiaries~~, which comprises the ~~consolidated~~ statements of financial position as at 30 June 20X1, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, ~~and notes to the financial statements, comprising including~~ a summary of significant accounting policies and other explanatory information....

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report paragraph, the accompanying consolidated financial report presents fairly, in all material respects (or “gives a true and fair view of”), the consolidated financial position ABC Entity and its subsidiaries as at 30 June 20X1, and (of) their consolidated financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards, and [relevant reporting framework.]

Basis for Qualified Opinion

...

...Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Report* section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the consolidated financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

...

Responsibilities of Management²² and Those Charged with Governance Responsibility for the Financial Report

[Reporting in accordance with ASA 700²³ – see [Aus] Illustration 2A in ASA 700.]

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and [relevant reporting framework],²⁴ and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility Responsibilities for the Audit of the Consolidated Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700. The last two paragraphs which are applicable for audits of listed entities only would not be included.]

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity’s preparation and fair presentation²⁵ of the financial report in order to design audit procedures that is appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’s internal control.²⁶ An audit also includes evaluating the appropriateness of accounting

²² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²³ See ASA 700, *Forming an Opinion and Reporting on a Financial Report*.

²⁴ Where management’s responsibility is to prepare a financial report that gives a true and fair view, this may read: “Management is responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such ...”

²⁵ In the case of footnote 3, this may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of a financial report that gives a true and fair view 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 entity’s internal control.”

²⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 3, this may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

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

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

...

[Aus] Illustration 1A:

For purposes of this illustrative auditor's report, the following circumstances are assumed
Circumstance include the following:

- Audit of a general purpose financial report prepared by management of the Entity the financial statements are prepared in accordance with Australian Accounting Standards.
- Audit of the consolidated financial report of a listed company. The audit is a group audit with subsidiaries (i.e., ASA 600 applies).
- The consolidated financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and under the Corporations Act 2001.
- The terms of the audit engagement reflect the description of the directors' responsibility for the consolidated financial report in ASA 210.
- In this example, The group engagement team is unable to obtain sufficient appropriate audit evidence.....
- ...
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants.
- ...
- The auditor is required to communicate key audit matters in accordance with ASA 701.
- In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method (recognised at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.
- The group engagement team has read the audited financial report of the component as at 30 June 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgement, the effect on the group financial report of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report

Qualified Opinion

We have audited the ~~accompanying~~ consolidated financial report of ABC Entity Company Ltd. (the Company), including its ~~subsidiaries~~, which comprises the ~~consolidated~~ statements of financial position as at 30 June 20X1, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, ~~and notes to the financial statements, comprising~~ a summary of significant accounting policies ~~and other explanatory information~~....

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* ~~section of our report paragraph~~, the consolidated financial report of ABC Entity Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's consolidated financial position as at 30 June 20X1 of the Company and its subsidiaries and of their consolidated financial performance for the year ~~ended on that date then ended~~; and ~~[registered scheme/disclosed Entity]~~'s...

Basis for Qualified Opinion

ABC Company's investment in XYZ Entity Company...

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

...

Responsibilities of the Directors Responsibility for the Consolidated Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

~~The directors of the company [registered scheme/disclosed Entity] are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Auditor's Responsibility Responsibilities for the Audit of the Consolidated Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

~~Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.~~

~~In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation²⁷ of the financial report in order to design audit procedures that is appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.²⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.~~

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

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

~~{We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year ended 30 June 20X1. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.~~

Opinion on the Remuneration Report

~~In our opinion, the Remuneration Report of ABC Company Ltd., for the year [period] ended 30 June 20X1, complies with section 300A of the Corporations Act 2001.]~~

Amendments to ASA 710

43. Paragraph 14 is amended to read as follows:

~~...Such a statement ... report. (Ref: Para. A8)~~

44. Paragraph 18 is amended to read as follows:

~~...(Ref: Para. Aus A7.2, A10Aus A10.1-A11)~~

45. Paragraph 19 is amended to read as follows:

~~...Such a statement .. report. (Ref: Para. A12)~~

46. In the Application and Other Explanatory Material section a new section titled “Prior Period Financial Report Not Audited (Ref: Para. 14)” is inserted directly under existing paragraph A7 and a new paragraph A8 is inserted underneath as follows:

~~If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by ASA 705²⁹ to express a qualified opinion or disclaim an opinion on the financial report, as appropriate, in accordance with ASA 705. If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's~~

²⁷ In the case of footnote 3, this may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control.”

²⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 3, this may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

²⁹ See ASA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

financial report, the auditor may determine this to be a key audit matter in accordance with ASA 701.³⁰

All following paragraph references are renumbered upwards by one.

47. Paragraph Aus A7.1 is deleted.
48. In the Application and Other Explanatory Material section a new section titled “Prior Period Financial Report Not Audited (Ref: Para. 19)” is inserted directly under existing paragraph A11 and a new paragraph A12 is inserted underneath as follows:

If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by ASA 705 to express a qualified opinion or disclaim an opinion on the financial report, as appropriate, in accordance with ASA 705. If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial report, the auditor may determine this to be a key audit matter in accordance with ASA 701.

All following paragraph references are renumbered upwards by one.

49. Appendix 1 is amended to read as follows:

Illustrations of Auditors’s Reports

Note: Throughout these illustrative auditor’s reports, the Opinion section has been positioned first in accordance with ASA 700, and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor’s responsibilities section is now subsumed as part of the new Basis for Opinion section.

Illustration 1 – Corresponding Figures (Ref: Para. A5)

- For purposes of this Report illustrative auditor’s report, the following of the circumstances described in paragraph 11(a), as follows are assumed:
- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600³¹ does not apply). The financial report is not prepared under the *Corporations Act 2001*.
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial report in ASA 210.³²
- ...
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*.

³⁰ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

³¹ See ASA 600, *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*.

³² See ASA 210, *Agreeing the Terms of Audit Engagements*.

- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.³³
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.³⁴
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report³⁵

Qualified Opinion

We have audited the ~~accompanying~~ financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, ~~and~~ notes to the financial statement, comprising ~~including~~ a summary of significant accounting policies ~~and other explanatory information, and management's assertion statement.~~

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report paragraph, the ~~accompanying~~ financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the ABC Entity as at 30 June 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Qualified Opinion

...

...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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

...

Responsibilities of Management³⁶ and Those Charged with Governance Responsibility for the Financial Report

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

~~Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,³⁷ and for such internal control as management~~

³³ See ASA 570, *Going Concern*.

³⁴ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

³⁵ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

³⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.

In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation³⁸ of the financial report 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 Entity's internal control.³⁹ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Report on Other Legal and Regulatory Requirements

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

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Aus] Illustration 1A – Corresponding Figures

³⁷ Where management's responsibility is to prepare the financial reports that gives a true and fair view, this may read: "Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such..."

³⁸ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control."

³⁹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

- For purposes of this Report illustrative auditor's report, the following of the circumstances described in paragraph 11(a), as follows are assumed:
- Audit of a financial report of an single listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600⁴⁰ does not apply).
- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and prepared under the Corporations Act 2001.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.⁴¹
- ...
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern in accordance with ASA 570.⁴²
- The auditor is required to communicate key audit matters in accordance with ASA 701.⁴³
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(C) of the Corporations Act 2001.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁴⁴

Qualified Opinion

...

In our opinion...Basis for Qualified Opinion section of our report paragraph, the accompanying financial report...

Basis for Qualified Opinion

...

...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 Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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.

⁴⁰ See ASA 600, *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*.

⁴¹ See ASA 210, *Agreeing the Terms of Audit Engagements*.

⁴² See ASA 570, *Going Concern*.

⁴³ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

⁴⁴ The sub-title "Report on the Audit of the Financial Report"...

...

Responsibilities of the Directors Responsibility for the Financial Report

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

~~The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,⁴⁵ and for such internal control as the directors' determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

~~Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.~~

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.

~~In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation⁴⁶ of the financial report 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 Entity's internal control.⁴⁷ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

Illustration 2:

For purposes of this Report illustrative auditor's report the following of the circumstances described in paragraph 11(b) as follows are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation

⁴⁵ Where management's responsibility is to prepare the financial reports that gives a true and fair view, this may read: "Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such..."

⁴⁶ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control."

⁴⁷ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

- framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is not prepared under the *Corporations Act 2001*.
 - The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
 - ...
 - The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
 - Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
 - The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
 - Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
 - In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report

Qualified Opinion

We have audited the accompanying financial report of ABC Entity... notes to the financial statements, comprising including a summary of significant accounting policies...

In our opinion,...described in the *Basis for Qualified Opinion* section of our report paragraph, the accompanying financial report...the financial position of the ABC Entity

Basis for Qualified Opinion

Because we were appointed auditors of the ABC Entity...

...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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

...

Responsibilities of Management⁴⁸s and Those Charged with Governance Responsibility for the Financial Report

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

~~Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,⁴⁹ and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

~~Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation⁵⁰ of the financial report 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 Entity's internal control.⁵¹ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

~~...~~

[Aus] Illustration 2A:

⁴⁸ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴⁹ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such..."

⁵⁰ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control."

⁵¹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

- For purposes of this Report illustrative auditor's report, the following of the circumstances described in paragraph 11(a), as follows are assumed:
- Audit of a of a single listed company's financial report using a fair presentation framework. The audit is not a group audit (i.e., ASA 600⁵² does not apply).
- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and prepared under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.⁵³
- ...
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.⁵⁴
- The auditor is required to communicate key audit matters in accordance with ASA 701.⁵⁵
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵⁶

Qualified Opinion

...

In our opinion...Basis for Qualified Opinion section of our report paragraph, the accompanying financial report...

Basis for Qualified Opinion

...

...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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

...

⁵² See ASA 600 *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*.

⁵³ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁵⁴ See ASA 570, *Going Concern*.

⁵⁵ See ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

⁵⁶ The sub-title "Report on the Audit of the Financial Report"...

Responsibilities of the Directors' Responsibility for the Financial Report

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

~~The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors' determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

~~Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation⁵⁷ of the financial report 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 Entity's internal control.⁵⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

Illustration 3:

For purposes of this Report illustrative auditor's report the following of the circumstances described in paragraph 13, as follows are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). –The financial report is not prepared

⁵⁷ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control."

⁵⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

under the *Corporations Act 2001*.

- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- ...
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁵⁹

Opinion

We have audited the accompanying financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, comprising including a summary of significant accounting...

In our opinion, the accompanying financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the ABC Entity as at 30 June 20X1...

Basis for Opinion

...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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

...

Other Matters

The financial report of the ABC Entity ...

⁵⁹ The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Responsibilities of Management⁶⁰s and Those Charged with Governance Responsibility for the Financial Report

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

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,⁶¹ and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.

In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation⁶² of the financial report 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 Entity's internal control.⁶³ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Other Legal and Regulatory Requirements

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

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

...

Illustration 4:

For purposes of this Report illustrative auditor's report of the following circumstances described in

⁶⁰ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶¹ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such..."

⁶² In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control."

⁶³ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

paragraph 15, as follows are assumed:

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is *not* prepared under the *Corporations Act 2001*.
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- ...
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report⁶⁴

Qualified Opinion

We have audited the accompanying financial report of ABC Entity (the Entity) and notes to the financial statements, including comprising a summary of significant accounting policies...

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph section of our report, the accompanying financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the ABC Entity...

Basis for Qualified Opinion

...

...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 Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial

⁶⁴ The sub-title "Report on the Audit of the Financial Report" ...

report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

...

Responsibilities of Management⁶⁵, and Those Charged with Governance Responsibility for the Financial Report

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

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,⁶⁶ and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility Responsibilities for the Audit of the Financial Report

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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.

In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation⁶⁷ of the financial report 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 Entity's internal control.⁶⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Report on Other Legal and Regulatory Requirements

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

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.

⁶⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶⁶ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of a financial report that gives a true and fair view in accordance Australian Accounting Standards, and for such ...".

⁶⁷ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view 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 entity's internal control."

⁶⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of a financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 4

Meeting Date: 28 July 2015
Subject: Enhancements to Auditor Reporting
Date Prepared: 14 July 2015

Action Required **For Information Purposes Only**

Agenda Item Objectives

1. To present constituents' submissions on ED 01/15 and the AUASB Technical Group's proposed dispositions thereof.
2. To present proposed Auditing Standards for the AUASB's *preliminary* approval.

Background

1. Exposure draft ED 01/15 was issued 30 April 2015 for a 60 day period ended 30 June 2015. The ED comprised an explanatory memorandum and 7 proposed Auditing Standards including one new standard (ASA 701) and an amending standard dealing with conforming amendments.
2. The AUASB received comprehensive submissions from 13 constituents, including one confidential submission.
3. Agenda Items 4.2 to 4.9 respond to the submissions with proposed dispositions of matters raised.
4. Agenda Items 4.10 to 4.23 are the clean and marked up versions of the proposed standards which incorporate changes made in response to constituents' submissions.
5. The enhancements to auditor reporting include the proposed revision of ASA 720 *The Auditor's Responsibilities Relating to Other Information*. ED 02/15 was issued 12 June 2015 for a 60 day period ended 10 August 2015. Submissions will be processed and presented to the AUASB at its 15 September meeting.
6. At the 15 September 2015 meeting, the AUASB will be asked to approve issuance of the entire suite of standards that were exposed for public comment through EDs 01/15 and 02/15.

Matters to Consider

Part A – General

1. The AUASB is asked to consider:
 - (a) The matters detailed in the attachment to this BMSP [Agenda Item 4.1];

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- (b) The proposed disposition of issues raised by constituents through the public exposure [Agenda Items 4.2 to 4.9]; and
 - (c) The proposed Auditing Standards [Agenda Items 4.10 to 4.23].
2. The AUASB is asked to give *preliminary* approval to the following proposed Auditing Standards:
- ASAs 700, 701, 705, 706, 570, 260 and 2015/1
3. *Preliminary* approval is subject to any changes the AUASB require as a result of their deliberations at the 28 July 2015 meeting; and further QA procedures.
4. Final approval to issue the new and revised Auditing Standards will be sought after proposed ASA 720 and its conforming amendments have been approved and where applicable, integrated into the above Auditing Standards.

Part B – NZAuASB

1. AUASB staff has been in regular contact with NZAuASB staff.
2. NZAuASB staff will be informed when all papers are available via the AUASB website. Exception will be the confidential submission.

Part C – “Compelling Reasons” Assessment

1. Compelling reasons documentation will be completed after the AUASB’s deliberations (28 July 2015 meeting). The compelling reasons documentation will become the primary input to the final “Basis for Conclusions”.

The proposed changes conform with IAASB modification guidelines for NSS?

Y N

AUASB Technical Group Recommendations

1. The proposed Auditing Standards to be given preliminary approval at the meeting.

Material Presented

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4.1	Attachment to AUASB Board Meeting Summary Paper
Agenda Item 4.2	ASA 700 ED Comments [Confidential]
Agenda Item 4.3	ASA 700 ED Comments [Confidential]
Agenda Item 4.4	ASA 701 ED Comments [Confidential]
Agenda Item 4.5	ASA 701 ED Comments [Confidential]
Agenda Item 4.6	ASA 570 ED Comments [Confidential]
Agenda Item 4.7	ASA 570 ED Comments [Confidential]
Agenda Item 4.8	ASA 260 ED Comments [Confidential]
Agenda Item 4.9	ASA 2015/1 Comments [Confidential]
Agenda Item 4.10	Proposed ASA 700 (Clean)
Agenda Item 4.11	Proposed ASA 700 (Marked up)
Agenda Item 4.12	Proposed ASA 701 (Clean)

Agenda Item 4.13	Proposed ASA 701 (Marked up)
Agenda Item 4.14	Proposed ASA 705 (Clean)
Agenda Item 4.15	Proposed ASA 705 (Marked up)
Agenda Item 4.16	Proposed ASA 706 (Clean)
Agenda Item 4.17	Proposed ASA 706 (Marked up)
Agenda Item 4.18	Proposed ASA 570 (Clean)
Agenda Item 4.19	Proposed ASA 570 (Marked up)
Agenda Item 4.20	Proposed ASA 260 (Clean)
Agenda Item 4.21	Proposed ASA 260 (Marked up)
Agenda Item 4.22	Proposed Amending Standard (Clean)
Agenda Item 4.23	Proposed Amending Standard (Marked up)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider ED submissions	AUASB comments	AUASB	28 July 2015	o/s
2.	Give <i>preliminary</i> approval	AUASB <i>preliminary</i> approval	AUASB	28 July 2015	o/s

GS 003

([April 2014](#)[2015](#))

Guidance Statement GS 003

Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001

Issued by the Auditing and Assurance Standards Board

Draft

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Auditing and Assurance Standards Board

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 003 *Assurance Requirements for Australian Financial Services Licensees under the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 003

Assurance Requirements for Australian Financial Services Licensees under the Corporations Act 2001

Application

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors conducting assurance engagements relating to Australian financial services (AFS) licensees reporting in accordance with the requirements of Chapter 7 of the *Corporations Act 2001* (the Corporations Act) and the associated *Corporations Regulations 2001* (Corporations Regulations).

Issuance Date

2. This GS is issued on 1 April~~August~~2014~~2015~~ by the AUASB and replaces GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*, issued in October 2007.

Introduction

3. In order to provide financial services in Australia, a person or entity is required by the Corporations Act to either hold an Australian Financial Services Licence (AFSL) or be an authorised representative of the AFSL holder. The Australian Securities and Investments Commission (ASIC) has responsibility for assessing and granting AFSLs on the basis of criteria set out in the Corporations Act¹. In addition, ASIC enforces financial and assurance requirements for AFS Licensees to meet their obligations under the Corporations Act.
4. The assurance requirements relating to AFS licensees may give rise to a number of special assurance considerations. Accordingly, this GS has been developed to identify, clarify and summarise the responsibilities which the auditor has with respect to conducting such assurance engagements, and to provide guidance to the auditor on additional factors which the auditor may consider when planning, conducting and reporting in relation to the assurance engagements of AFS licensees.
5. This GS provides guidance for each element section of the assurance engagement as required by ASIC form FS 71 *Auditor's Report for AFS Licensee*, except for the reasonable assurance on the financial statements of the AFS licensee, for which mandatory requirements and explanatory guidance are provided in the Australian Auditing Standards (Auditing Standards). The auditor complies with all of the requirements in each of the Auditing Standards relevant to the financial statement audit in determining the audit procedures to be performed in conducting an audit in accordance with Auditing Standards.
6. This GS does not extend the responsibilities of the auditor beyond those which are imposed by Auditing Standards, Standards on Assurance Engagements (ASAEs), the requirements of the Corporations Act and the Corporations Regulations, applicable ASIC regulatory documents and class orders.
7. This GS is to be read in conjunction with, and is not a substitute for referring to the requirements and guidance contained in:
 - (a) The Australian Auditing Standards;
 - (b) Applicable Standards on Assurance Engagements including ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,

¹ Part 7.6 Division 4 of the Act.

ASAE 3100 *Compliance Engagements*, ASAE 3150 Assurance Engagements on Controls², ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*³, and ASAE xxx;

- (c) Applicable ASIC regulatory documents in this area issued from time to time, such as Regulatory Guide 166 *Licensing: Financial requirements* (RG 166) reissued in November July 2013-2015 and Pro Forma 209 *Australian financial services licence conditions* (PF 209) reissued in November July 2013-2015; and
 - (d) Applicable ASIC Class orders in this area issued from time to time, such as ASIC Class Order CO 13/760 *Financial Requirements for responsible entities and operators of investor directed portfolio services*; CO 13/761 *Financial requirements for custodial or depository service providers*; and CO 12/752 *Financial requirements for retail OTC derivative issuers*.
8. This GS should not be used as a checklist of issues to be considered by the auditor. Furthermore, it is not intended that this GS limits or replaces the auditor's professional judgement and initiative or limits the application of AUASB Standards on such engagements. AUASB Standards contain the basic principles and essential procedures to be applied to assurance engagements. Assurance engagement programs are to be designed by the auditor to meet the requirements of the particular circumstances, giving careful consideration to the size and type of the AFS licensee and the adequacy of its internal control structure.

Legislative Background

- 9. The *Financial Services Reform Act 2001* (FSR Act) and the overall AFS licensing regulatory regime which is administered by ASIC, formally commenced on 11 March 2002. The full provisions of the FSR Act are operative for all AFS licensees under Chapter 7 of the Corporations Act.
- 10. The FSR Act amendments to the Corporations Act introduced a single licensing regime for financial advice and dealings in relation to financial products. The Corporations Act requires a person or an entity that operates a financial services business to hold the AFS licence or be authorised by the AFS licensee.

Definitions

- 11. For the purposes of this GS, the following items have the meanings attributed below:
 - (a) The term "auditor" is used throughout this GS and is taken to be a registered company auditor.
 - (b) References to Auditing Standards means, where relevant, reference to Australian Auditing Standards and Standards on Assurance Engagements (ASAEs).
 - (c) For the purposes of this GS an assurance engagement means an engagement in which an auditor aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
 - (i) Reasonable assurance engagement means an assurance engagement in which the auditor reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the auditor's conclusion. The auditor's conclusion is expressed in a form that conveys the auditor's

² ASAE 3150 is operative for assurance engagements commencing on or after 1 January 2016. Early adoption of ASAE 3150 is permitted only in conjunction with the adoption of revised ASAE 3000 prior to this date.

³ ASAE 3450 is applicable when providing assurance around the cash needs requirements for AFSLs as required within opinion 3section 4 of FS-71.

opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- (ii) Limited assurance engagement means an assurance engagement in which the auditor reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the auditors attention to cause the auditor to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

Selected Regulatory Requirements for AFS Licensees

Corporations Act Requirements

12. The Corporations Act⁴ requires the AFS licensee to prepare and lodge a profit and loss statement and balance sheet with ASIC. In addition, AFS licensees other than limited AFS licensees⁵, are required⁶ to lodge an auditor's report in the prescribed form with ASIC for each financial year. ASIC requires the profit and loss statement (Statement of Profit and Loss and Other Comprehensive Income) and balance sheet (Statement of Financial Position) and notes to the Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position (the "financial statements") to be attached to the *Australian financial services licensees: profit and loss statement and balance sheet* (FS 70) and accompanying *Auditor's Report for AFS Licensee Australian financial services licensees: audit report* (FS 71). Forms FS 70 and FS 71 can be found on the ASIC website www.asic.gov.au under "Download Forms".
13. Section 989D(1) of the Corporations Act and regulation 7.8.14A of the Corporations Regulations require the AFS licensee to lodge FS 70 and FS 71 with ASIC within the following timeframes:
- if not a body corporate – the day that is 2 months after the end of that financial year;
 - if a body corporate that is a disclosing entity or a registered scheme – the day that is 3 months after the end of that financial year; or
 - if a body corporate that is not a disclosing entity or registered scheme – the day that is 4 months after the end of that financial year.
14. Many AFS licensees lodge annual financial reports and the auditor's report under Chapter 2M of the Corporations Act (within 3 or 4 months of the financial year) with ASIC. The lodgement requirements under Chapter 2M and Part 7.8 of the Corporations Act are independent obligations and so it is necessary for AFS licensees to lodge financial statements separately under both provisions. The lodgement requirements under Chapter 2M of the Corporations Act apply to companies in general and are not affected by the FSR Act amendments. The FSR Act requires AFS licensees to lodge an FS 70 form (which includes the annual financial statements) and an FS 71 form (auditor's report) under Part 7.8 of the Corporations Act. Only the financial reports lodged under Chapter 2M are on public record

⁴ Section 989B(1) and 989B(2) of Part 7.8 of the Corporations Act.

⁵ Limited licensees are defined in section 989B(4) of the Corporations Act.

⁶ Section 989B(3) of Part 7.8 of the Corporations Act.

while FS 70 and FS 71 contain information that is not required under Chapter 2M. If the AFS licensee is not required to lodge annual financial reports under Chapter 2M, they are still required to lodge FS 70 and FS 71 with ASIC under Part 7.8 of the Corporations Act.

15. The AFS licensee can apply to ASIC for an extension of time to lodge FS 70 and FS 71 under Section 989D(3) of the Corporations Act.

Financial Requirements for AFS Licensees

Financial Requirements for APRA Regulated Entities, Market and Clearing Participants

16. The base level financial requirements (refer paragraph 19) and other financial requirement conditions, as set out in ASIC Pro Forma 209 (PF 209), do not apply but FS 70 and FS 71 are still required to be lodged with ASIC if the AFS licensee is either:
- (a) a body regulated by the Australian Prudential Regulation Authority (APRA) as defined in Section 3(2) of the *Australian Prudential Regulation Authority Act 1998*; or
 - (b) a market participant (other than a principal trader, unless the principal trade is a registered market trader) as defined in section 761A of the *Corporations Act 2001* in relation to a licenced financial market operated by:
 - (i) ASX Limited (ASX market) that is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX Market) 2010* that impose financial requirements, taking into account any waiver by ASIC; or
 - (ii) Chi-X Australia Pty Limited (Chi-X market) and APX markets that are required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011* and *APX market 2013* that impose financial requirements, taking into account any waiver by ASIC; or
 - (iii) Australian Securities Exchange Limited (ASX 24 market), that restricts its financial services business to participating in the ASX 24 market and incidental business⁷; and is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX 24 Market) 2010* that impose financial requirements, taking into account any waiver by ASIC; or
 - (c) a clearing participant as defined in section 761A of the *Corporations Act 2001* in relation to a clearing and settlement facility (“CS facility”), where that facility is the licensed CS facility operated by:
 - (i) ASX Clear Pty Limited, and the AFS licensee is required to comply with, and complies with, the operating rules of ASX Clear Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear Pty Limited; or
 - (ii) ASX Clear (Futures) Pty Limited, and the AFS licensee restricts its financial services business to participating in that CS facility and incidental business; and is required to comply with, and complies with, the operating rules of ASX Clear (Futures) Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear (Futures) Pty Limited.
17. Where an AFS licensee is a body regulated by APRA, PF 209 condition 27 requires the audit opinion [in FS 71](#) to state whether for the relevant period, on a reasonable assurance basis, the AFS licensee was a body regulated by APRA throughout the financial year or for any period

⁷ ASIC Regulatory Guide RG 166.186 explains that the relevant financial requirement in the ASIC market integrity rules may not be sufficient where an ASX 24 participant undertakes additional business.

of time that ASIC requests. [Example 1 in Appendix 1 shows an example FS 71 paragraph 3 for an AFS licensee regulated by APRA](#) [ASIC includes this licence condition confirmation as an application statement made under section 1 of FS 71. The auditor satisfies themselves that the information included under the application statement is applicable.](#)

18. Where an AFS licensee is a market participant or clearing participant, [PF 209 condition 27](#) [ASIC](#) requires the audit opinion [in FS 71](#) to state whether, during any part of the period for which the AFS licensee relied on being a market participant or clearing participant, on a reasonable assurance basis, the AFS licensee was a participant in the market conducted by:
- (a) ASX; or
 - (b) Chi-X market; or
 - (c) ASX 24 market, and restricted its financial services business to participating in the ASX 24 market and incidental business; or
 - (d) Licensed CS facility operated by ASX Clear Pty Limited; or
 - (e) Licenced CS facility operated by ASX Clear (Futures) Pty Limited, and restricted its financial services business to participating in the licensed CS facility and incidental business; or
 - (f) APX market.
- [ASIC includes this licence condition confirmation as an application statement made under section 1 of FS 71. The auditor satisfies themselves that the information included under the application statement is applicable.](#) [Example 2 in Appendix 1 shows an example FS 71 paragraph 3 for a market participant or clearing participant.](#)
19. All AFS licensees that are not exempt from the base level financial requirements are required to comply with these requirements under the Corporations Act. The base level financial requirements (summarised in [Appendix 4](#)) include:
- (a) the solvency and positive net assets requirements;
 - (b) the cash needs requirement ([appendix 6](#)), unless a tailored cash needs requirement applies (refer paragraph 21 and 22).
20. In addition, there are financial requirements specified in PF 209 and RG 166 for:
- (a) trustee companies providing traditional services (net tangible assets requirement, refer to PF 209 condition 19B and RG 166 Appendix 5);
 - (b) issuers of margin lending facilities (net tangible assets requirement, refer to PF 209 condition 19A and RG 166 Appendix 6);
 - (c) foreign exchange dealers (tier one capital requirement, refer to PF 209 condition 20 and RG 166 Appendix 7);
 - (d) holding client money or property (tiered surplus liquid funds requirement, refer to PF 209, condition 21 and RG 166 Section C);
 - (e) transacting with clients as principal (adjusted surplus liquid funds (ASLF) requirement, refer to PF 209, condition 22 and RG 166 Section D); and
 - (f) reporting triggers for AFS licensees who are not APRA regulated and are not retail over the counter (OTC) derivative issuers (refer to PF 209, conditions 23-26 and RG 166.83).

Financial Requirements for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers

21. In addition to the standard solvency and positive net assets requirements specified in paragraph 19, tailored financial and assurance requirements mentioned in paragraph 22 apply to the following types of AFS licensees:
- (a) A responsible entity authorised to operate a managed investment scheme and IDPS operators.
 - (b) Custodial or depository service providers.
 - (c) Retail OTC derivative issuers.
22. Tailored financial and assurance requirements ~~that apply to AFS licensees mentioned in paragraph 21 include:~~
- (a) tailored cash needs requirement;
 - (b) tailored net tangible assets (NTA) requirement;
 - (c) tailored liquidity requirement; and
 - (d) tailored assurance requirement.

Refer Appendix [4-3](#) for more details and relevant regulatory references.

FS 71 Auditor Reporting Requirements

23. The FS 71 auditor's report requires:
- (a) Reasonable assurance on the financial statements ([included within sOpinion-section 2 of 4 in FS 71](#)).
 - (b) [Reasonable assurance on the following matters as stated in Regulation 7.8.13\(2\) of the Corporations Regulations \(included within section 2 of FS 71\):](#)
 - (i) [the effectiveness of internal controls used by the AFS licensee to comply with:](#)
 - [Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the Corporations Act; and](#)
 - [Division 7 of Part 7.8 of the Corporations Act other than section 991A; and](#)
 - (ii) [whether each account required by sections 981B and 982B of the Corporations Act to be maintained by the AFS licensee has been operated and controlled in accordance with those sections; and](#)
 - (iii) [whether all necessary records, information and explanations were received from the AFS licensee](#)
 - (c) [Limited assurance on certain A FS 70 statement ~~statements made in FS 70~~ relating to dealing with clients' money and other property of clients \(\[Opinion 2 in section 3 of FS 71\]\(#\)\).](#)
 - (e) [Reasonable assurance that the AFS licensee \(included within Opinion 3 of FS 71\):](#)
 - (i) [is a body regulated by APRA; or](#)
 - (ii) [is a market or clearing participant; or](#)

- (iii) complies with all the financial requirements under the licence other than the cash needs requirement, except for paragraph (e) of the definition of Option 1⁸ if the AFS licensee purports to comply with Option 1.
- (d) Reasonable assurance that the AFS licensee complies with all the financial requirements under the licence other than the cash needs requirement, except for paragraph (e) of the definition of Option 1⁹ if the AFS licensee purports to comply with Option 1. A combination of Reasonable and Limited Assurance in relation to the relevant cash needs requirements (options 1-5¹⁰) as outlined in Appendix 7-6 is required if the AFS licensee, is not a body regulated by APRA or a market or clearing participant or a body subject to tailored cash and audit requirements (refer paragraph 19(b)) (included within Opinion 3 sections 4 and 5 of FS 71).
- (e) Reasonable assurance that the AFS licensee complies with all the financial requirements under the licence other than the cash needs requirement, except for paragraph (e) of the definition of Option 1¹¹ if the AFS licensee purports to comply with Option 1. A combination of Reasonable and Limited Assurance in relation to the relevant tailored cash and audit requirements as outlined in Appendix 6-4 and 5 is required if the AFS licensee is a responsible entity, an operator of IDPS, a custodial, a depository service provider or a retail OTC derivative issuer, that is subject to tailored cash and audit requirements (included within Opinion 3 sections 4 and sections 6-8 of FS 71).
- (f) Reasonable assurance on the following matters as stated in Regulation 7.8.13(2) of the Corporations Regulations:
- (i) the effectiveness of internal controls used by the AFS licensee to comply with (Opinion 4 of FS 71):
- Divisions 2, 3, 4, 5 and 6 of Part 7.8 of the Corporations Act; and
 - Division 7 of Part 7.8 of the Corporations Act other than section 991A; and
- (ii) whether each account required by sections 981B and 982B of the Corporations Act to be maintained by the AFS licensee has been operated and controlled in accordance with those sections (Opinion 5 of FS 71); and
- (iii) whether all necessary records, information and explanations were received from the AFS licensee (Opinion 6 of FS 71)
- (g) (f) A statement report that there are no matters that should have been reported to ASIC in accordance with section 990K of the Corporations Act during or since the financial year that have not previously been reported to ASIC, other than the matters detailed in FS 71 (Statement section 11 of FS 71).
24. FS 71 is a prescribed form, however, paragraph 3 of FS 71 has been left blank for the auditor to insert their opinions and/or statements required under the AFS licensee's licence.
Appendix 1 contains examples of paragraph 3 to be included in different circumstances.
25. 24. ASIC Pro Forma 209 Australian Financial Services Licence Conditions (PF 209), reissued in November July 2013 2015, sets out the standard licence conditions which subject to individual circumstances, will usually be applied to licences authorising a person to provide financial services under the AFS licence. It is important that the individual AFS licence conditions are examined carefully so that the appropriate reporting and auditing obligations are met.

⁸ As defined in ASIC PF 209 terms and definitions.

⁹ As defined in ASIC PF 209 terms and definitions.

¹⁰ As defined in ASIC PF 209 terms and definitions.

¹¹ As defined in ASIC PF 209 terms and definitions.

26.25. In addition, ASIC Class Orders CO 12/752, CO 13/760, CO 13/761 set out the financial requirements applicable to specific categories of AFS licensees. It is important that these tailored requirements are examined carefully so that the appropriate financial and auditing obligations are met.

Exemptions From Lodging Form FS 71

27.26. The holder of a limited AFSL is not required to lodge FS 71 with ASIC. Regulation 7.8.12A and 7.8.13A of the Corporations Regulations exempts limited AFS licensees¹² from lodging an auditor's report with ASIC but requires the lodgement of a compliance certificate with ASIC. Under section 989B(1) and 989B(2) of the Corporations Act, limited AFS licensees are still required to prepare and lodge with ASIC, a profit and loss statement and balance sheet in the approved form FS 70 within the required timeframes.

28.27. A foreign Authorised Deposit-taking Institution ("ADI") which holds the AFS licence that has relief under Class Order 03/823 *Relief from licensing, accounting and audit requirements for foreign authorised deposit-taking institutions*, is not required to lodge FS 71 with ASIC. It is exempt from the requirements of section 989B of the Corporations Act, where equivalent reports prepared for the overseas regulator of the foreign ADI are lodged with ASIC at least once in every calendar year and at intervals of not more than 15 months.

29.28. Where the foreign ADI is also regulated by APRA and the AFS licence contains condition 27 in PF 209, then it is necessary for the foreign ADI to lodge an audit report (even if the foreign ADI is exempt under Class Order 03/823), that states whether for the relevant period, on a reasonable assurance basis, the AFS licensee was a body regulated by APRA at the end of the financial year or for any period of time that ASIC requests. This is because the APRA regulation confirmation requirement is in addition to Section 989B of the Corporations Act or Class Order 03/823. The format of this audit report does not need to be in accordance with FS 71. To avoid any processing problems, ASIC requires the audit report to be lodged and accompanied by a letter identifying the AFS licensee, licence number and financial year, and clearly stating the reasons why FS 71 has not been lodged. ASIC requires this letter to include reference to the class order and to the requirement for a report pursuant to the relevant licence condition.

30.29. Class Order 06/68 *Conditional relief for foreign licensees from financial reporting and record keeping obligations*, issued 3 February 2006 provides that a foreign company AFS Licence holder (other than a foreign ADI) can lodge accounts prepared for their home regulator with ASIC to meet their AFS Licence requirements. As a result the foreign company does not have to comply with regulations made for the purposes of sections 989B and 989C of the Corporations Act and hence is not required to lodge FS 70 or FS 71.

31.30. RG 166.19 also states that if the licensee is prudentially regulated overseas, they can apply to ASIC for relief from the financial requirements. ASIC will give this relief on a case-by-case basis if they are satisfied that the applicant is regulated in a way that is comparable to regulation by APRA for entities of that kind. If applicable, ASIC will consider the extent to which the relevant foreign prudential regulation is consistent with the Basel Committee guidelines for regulating deposit-taking institutions.

Considerations for the Auditor

Those Who May Audit the AFS Licensee

32.31. Section 990B(1) of the Corporations Act, requires the AFS licensee to ensure that at all times a registered company auditor who is not made ineligible through regulation 7.8.16(1)(a) of the Corporations Regulations is engaged to audit the AFS licensee's financial statements.

¹² Limited licensees are defined in section 989B(4) of the *Corporations Act 2001*.

Agreeing on the Terms of the Engagement

- 33.32.** The auditor complies with the requirements and guidance contained in ASAE 3000 when agreeing on the terms of the AFS licensee's assurance engagement in writing. Such terms may be outlined in an engagement letter¹³, an example of which is provided in Appendix 2.1 to this GS. ASA 210 *Agreeing the Terms of Audit Engagements* contains information that the auditor may find helpful when agreeing on the terms of the engagement in this context.
- 34.33.** The auditor may also use the engagement letter to clarify the respective roles of the AFS licensee and the auditor. In particular, it is important to highlight in the engagement letter the AFS licensee's obligation to establish and maintain effective internal control in relation to compliance with the requirements of the Corporations Act. It is the responsibility of the AFS licensee to comply with all the conditions under its AFSL, including all the financial requirements. As part of the acceptance of the assurance engagement, the auditor may consider obtaining acknowledgment of this obligation from those charged with governance of the AFS licensee when obtaining agreement on the terms of the engagement.

Planning

- 35.34.** The auditor plans the engagement in accordance with ASAE 3000 and ASAE 3100. In planning the auditor performs preliminary engagement activities to establish and document the overall assurance engagement strategy that sets the scope, timing and direction of the engagement, that guides the development of the engagement.
- 36.35.** ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* contains information that the auditor may find helpful when obtaining an understanding of the entity and its environment, including its internal controls, to provide a basis for the identification and assessment of the risks of material misstatement of ASIC form FS 70, compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Act whether due to fraud or error, and sufficient to design and perform further audit procedures which may also impact on the FS 71 audit report.

Understanding the Entity and its Environment

- 37.36.** In gaining an understanding of the entity and its environment, the auditor can draw on knowledge gained as part of the annual financial statement audit, however this understanding needs to be updated and broadened to meet the requirements of an engagement of AFS Licenses issued under the Corporations Act. ASAE 3100¹⁴ provides a list of matters to be considered by the auditor in understanding the entity and the compliance framework. It is likely the auditor will conduct the following procedures in obtaining that increased understanding and assessing risk: enquiries, analytical procedures, observation and inspection.
- 38.37.** For a limited assurance engagement the auditor does not normally develop the depth of understanding of internal controls in relation to those areas subject only to limited assurance, as is required in a reasonable assurance engagement and so gaining an understanding may be limited to enquiries.

Identifying and Assessing Risks of Compliance Breach

- 39.38.** The auditor of the AFS licensee may consider:
- Key responsibilities and risks identified;
 - Processes and reliability of reporting systems established by the AFS licensee to implement the licence conditions; and

¹³ Or other suitable form of audit contract.

¹⁴ See ASAE 3100, paragraphs 28-32 and 50.

- (c) Processes and adequacy of systems established by the AFS licensee to monitor adherence to the licence conditions and the Corporations Act requirements. The auditor may obtain from management a copy of the licence conditions, together with a written description of the procedures and structures which the AFS licensee has established to ensure compliance with those licence conditions.

| 40.39. In planning the assurance engagements and in making risk assessments, the auditor considers various matters including:

- The licence conditions.
- The nature and extent of any recent changes to the licence conditions and whether any detected breaches are deemed to be reportable in light of the revised licence conditions.
- The nature of and extent of any changes to, the operations of the AFS licensee itself.
- Changes to the requirements of relevant AUASB Standards.
- Changes to the Corporations Act and Corporations Regulations.
- Changes to relevant ASIC Regulatory Guides and Class Orders.
- Reports and other documents submitted to the board of the AFS licensee regarding the operation of the licence and its compliance functions.
- Previous auditor's reports, including the auditor's report on financial statements of the AFS licensee, and related management letters.
- History of non-compliance with licence conditions.

Overall Responses to Assessed Risks of Material Misstatement in FS 70 and AFSL Compliance Breaches and Further Procedures

| 41.40. The auditor designs and performs further assurance procedures which are responsive to the assessed risks of material misstatement or material compliance breach. The auditor chooses a combination of assurance procedures, which may include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry.

| 42.41. ASAE 3000 clearly differentiates between the objectives of a limited versus a reasonable assurance engagement, and provides detail around the sufficiency of audit evidence on which to base conclusions. The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the auditor's determination of materiality, risk assessment and the results of the procedures conducted in response to assessed risks. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the auditor will perform will vary in nature from and will be less in extent than for a reasonable assurance engagement. In a limited assurance engagement procedures primarily involve enquiries and substantive analytical procedures and may not include tests of controls.

| 43.42. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000 and ASAE 3100 require additional procedures to be conducted if the auditor becomes aware of a matter which causes them to believe the subject matter may be materially misstated or there may be a reportable compliance breach. The auditor may conduct procedures more akin to a reasonable assurance engagement on this particular matter in order to satisfy themselves that either the subject matter is not materially misstated or non-compliant.

44.43. In a reasonable assurance engagement, procedures may include tests of controls as well tests of detail. When conducting a reasonable assurance engagement, if the auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of tests of details may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of tests of details will need to be increased or modified.

Materiality

45.44. The auditor considers materiality when determining the nature, timing and extent of assurance procedures. The objectives of setting materiality are to establish:

- (a) A tolerable level of misstatement, deficiency, deviation or non-compliance -of the subject matter in the entity's reports;
- (b) The scope of assurance work to be performed; and
- (c) A reasonable basis for evaluating identified misstatements, deficiency, deviation or non-compliance.

Materiality is addressed in the context of the AFS auditor's objectives, which are developed having regard to the needs reasonable expectations of issues that would likely influence the decisions of the user(s).

46.45. The auditor sets materiality in accordance with ASAE 3000 and ASAE 3100. ASA 320 *Materiality in Planning and Performing an Audit* contains information that the auditor may find helpful in this context. Information may be adapted by the auditor, as appropriate, to the task of judging adherence to the AFS licence and conformity with the relevant provisions in Part 7.8 of the Corporations Act. However, it is not possible to give a definitive view on what may constitute material, other than to suggest that the auditor exercises appropriate professional judgement having regard to the AFS licensee's obligations, together with the size, complexity and nature of the AFS licensee's activities. The auditor develops separate materiality levels for each section of the engagement.

47.46. As identified in ASAE 3000 and ASAE 3100, when assessing materiality, the auditor considers qualitative factors as well as quantitative factors. The following are examples of qualitative factors that may be relevant:

- The specific requirements of the terms of the engagement.
- The magnitude of instances of detected or suspected non-compliance and whether the misstatement affects compliance with a law or regulation.
- When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.
- The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
- The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components.
- Whether a misstatement is the result of an intentional act or is unintentional.
- The interests of the intended users.

48.47. Materiality is determined in the same way whether the engagement is a reasonable or limited assurance engagement. The difference between reasonable and limited assurance engagements lies in the nature, timing and extent of evidence gathering procedures, which will

differ in order to reduce the risk of a material misstatement or compliance breach remaining undetected to an acceptably low level, in the case of a reasonable assurance engagement, or to a limited level, in the case of a limited assurance engagement. The risk of material misstatements or compliance breaches in a limited assurance engagement is not reduced to the same extent as in a reasonable assurance engagement, because of the more limited nature, timing and extent of procedures conducted. In a limited assurance engagement, the auditor seeks to obtain a meaningful level of assurance, which is likely to enhance the intended users' confidence about the subject matter to a degree that is clearly more than inconsequential.

- 49.48. When determining materiality, the auditor considers ASIC Regulatory Guide RG 34 Auditor's obligations: *Reporting to ASIC* that contains information on the obligations of an auditor of an AFS Licensee in terms of breach reporting and ASIC Regulatory Guide RG 78 *Breach reporting by AFS licensees* that contains information on AFS Licensees breach reporting obligations.
- 50.49. Although there is a greater risk that misstatements, control deficiencies or instances of non-compliance may not be detected in a limited assurance engagement than an reasonable assurance engagement, the judgement as to what is material is made by reference to the subject matter on which the auditor is reporting and the needs of those relying on that information, as opposed to the level of assurance obtained.

Materiality and FS 71

51. An auditor may have concluded that it is appropriate to issue an unmodified opinion/conclusion but during the course of the engagement may have identified misstatements, deficiencies, deviations or compliance breaches that are not material, either individually, or taken as a whole, in the context of the engagement. ASIC requires that these identified non-material misstatements, deficiencies, deviations, compliance breaches or other exceptions/findings are reported to ASIC within section 9 of FS 71. ASIC FS 71 is a prescribed auditor's report. When assessing the acceptability of the prescribed format, especially in relation to the principles contained in ASAE 3000 an auditor reporting in the FS 71 format meets the requirements of the relevant AUASB Standards.
52. The prescribed form, FS 71, does not amend the auditor's objectives and approach in setting and applying levels of materiality. For example using materiality to determine the scope of assurance procedures is not impacted because of the format of form FS 71.
53. There is an inconsistency between the auditor's obligation to report any section 990K(2) breaches and the AFS Licensee's obligation to report only significant breaches. While the term significant is not defined in the Corporations Act ASIC RG 78 lists factors that may determine whether a breach is significant.
- 50.
- 54.51. An auditor may have concluded that it is appropriate to issue an unmodified opinion/conclusion but may still have s990K(2) findings that are not considered by the auditor to be material, that are reportable to ASIC under s990K(2). These reportable breaches that may or may not impact the auditor's opinion/conclusion are reported to ASIC in section 11 of on form FS 71(if not already previously reported).
55. The layout of FS 71 effectively provides for either an unmodified or qualified opinion (FS 71 uses the words "except for"). In this context, qualification comprises a listing of all exceptions identified by the auditor. Accordingly, for the purposes of reporting, the auditor does not use materiality in determining matters (non-compliance/deviations/uncorrected errors) to report on as exceptions on FS 71. Due to the nature of the prescribed report, the user(s) determine the implications of the reported exceptions.
56. Or

57. The layout of FS 71 effectively provides for either an unmodified or qualified opinion. In this context, qualification comprises a listing of exceptions identified and determined by the auditor to be material. Accordingly, for the purposes of reporting, the auditor does not use materiality in determining matters (non-compliance/deviations/uncorrected errors) to report on as exceptions on form FS 71. Due to the nature of the prescribed report, the user(s) determine the implications of the reported exceptions.
58. Where an element of FS 71 is not applicable to an AFS Licensee, (for example the projection paragraph), or where the opinion section (paragraphs 1-6) of FS 71 is not applicable to an AFS Licensee, (for example the AFS Licensee does not hold client money or property), the auditor states this fact at paragraph 7 on FS 71.
59. The prescribed format does not provide for an adverse opinion or disclaimer of opinion. Accordingly in such circumstances the auditor includes any such modifications at paragraph 7 on FS 71.
- 60.

Reporting Entity Concept

- 61-52. AFS licensees are required to lodge annual financial statements attached to FS 70 and FS 71. Where AFS licensees have not previously prepared financial statements or, in very rare situations, have previously prepared special purpose financial statements, then the auditor considers whether the AFS licensee is a reporting entity. Guidance as to what constitutes a reporting entity is contained in Statement of Accounting Concepts SAC 1 'Definition of the Reporting Entity' and Miscellaneous Professional Statement APS 1 'Conformity with Accounting Standards and UIG Consensus Views'. The decision as to whether an entity is a reporting entity needs to be made on a case by case basis in accordance with SAC 1 and APS 1. A requirement to prepare and/or lodge a financial report with ASIC pursuant to the Corporations Act does not, of itself, deem that entity to be a reporting entity.
- 62-53. In most circumstances the AFS licensee will be a reporting entity and hence lodge "general purpose" financial statements. AFS Licensees general purpose financial statements may be subject to the reporting requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards* and accordingly may be subject to reduced disclosure requirements.

Natural Persons

- 63-54. ASIC has issued class order CO 03/748 *Reporting requirements under s989B* on reporting requirements for AFS licensees who are natural persons. A natural person is defined as an individual, as opposed to a company, partnership or trustee. CO 03/748 states that where the licensee is a natural person, the licensee may exclude from the profit and loss statement, the revenue and expense that do not relate to any business of the licensee or all the revenue and expenses that do not relate to a financial services business of the licensee.
- 64-55. Alternatively, a natural person licensee can choose not to rely on CO 03/748 and instead include in a profit and loss statement all of their revenues and expenses, whether personal or business. The relief under CO 03/748 is confined to the preparation of the profit and loss statement. ASIC requires a natural person licensee to still prepare a balance sheet that discloses all of their assets and liabilities, including their personal assets and liabilities and the assets and liabilities of any other business.

Auditor Reporting Requirements

Reasonable Assurance on Certain Provisions in Part 7.8 of the Corporations Act (FS 71, section 2)

56. The FS 71 audit report requires reasonable assurance on the control environment to achieve compliance with the requirements of Divisions 2, 3, 4, 5 and 6 of Part 7.8 of the

Corporations Act and Division 7 of Part 7.8 other than section 991A. These provisions include:

- Dealing with clients' money.
- Dealing with other property of clients.
- Special provisions relating to insurance.
- Obligations to report.
- Financial records, statements and audit.
- Other rules about conduct (i.e.: giving priority to client orders, transmission of instructions through licensed markets, maintaining records of instruction, dealing with non-licensees and employees).

Assurance Considerations

57. In assessing the control environment, the auditor needs to determine which of the controls at the AFS licensee are necessary to achieve the control objectives relating to compliance with Divisions 2,3,4,4A,5 and 6 of Part 7.8 of the Corporations Act; and Division 7 of Part 7.8 of the Corporations Act (other than section 991A).
58. Where the auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve a control objective, if operating effectively, this may constitute a deficiency in relation to the suitability of design which would result in the controls being ineffective.
59. The auditor assesses the risk of the controls necessary to achieve the compliance requirements not operating effectively and uses professional judgement in determining the specific nature, timing and extent of procedures to be conducted.
60. Division 2 of Part 7.8 subdivision A and Corporations Regulations 7.8.01 – 7.8.05 relates to handling of client money including:
- What constitutes client money?
 - Establishing an approved trust account.
 - Payment of client money into the trust account within one business day.
 - Circumstances where money can be withdrawn from the trust account.
 - Treatment of interest on client money.
61. The auditor establishes whether the AFS licensee holds client money and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls that are suitable to meet the relevant requirements; and then tests that those controls have operated effectively throughout the period. The auditor may select items for testing described below to obtain evidence regarding the operating effectiveness of the controls:
- to establish whether client money received has been appropriately paid into the trust account.
 - to establish whether withdrawals from the trust account are in accordance with Corporations Regulation 7.8.02. If an AFS licensee does hold client money, the auditor considers whether they also have to comply with the Surplus Liquid Funds requirement.

- of trust account reconciliations to establish whether client and AFS Licensee money is properly separated, including that non-client money is properly identified and separated on a timely basis in accordance with the Corporations Regulation 7.8.01.
62. Division 2 of Part 7.8 subdivision B and Corporations Regulations 7.8.06 relates to monies paid to an AFS licensee by way of a loan from a client, including:
- What constitutes a loan from a client (excludes deposit and debenture payments)?
 - Establishing an approved trust account.
 - Payment of money lent into the trust account within 1 business day.
 - That a statement is required to be given to the client setting out the terms and conditions of use of the loan and the purpose for which funds will be used.
 - The requirement to only use funds for the specified purpose outlined in the terms and conditions or subsequently agreed to in writing.
 - The auditor establishes whether the AFS licensee has received a loan from a client and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
 - Selecting a sample of items for testing to establish whether money received has been appropriately paid into the trust account;
 - Testing to establish whether clients have been given the appropriate statements;
 - Selecting a sample of items for testing to establish whether money lent has been used for an agreed purpose.
63. Division 3 of Part 7.8 and Corporations Regulation 7.8.07 relates to the handling of property other than money given to the AFS licensee, including:
- What constitutes client property?
 - How the AFS licensee deposits or registers that client property.
 - Circumstances in which an AFS licensee can hold property as security.
 - The requirement to return secured property to the client within one business day of the client settling their obligation to the AFS licensee.
 - The requirement to provide clients with statements of property held as security every 3 months.
64. The auditor establishes whether the AFS licensee handles client property. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the requirements of Division 3 of Part 7.8 and Corporations Regulations 7.8.07; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
- Selecting a sample of items for testing to establish whether property received has been appropriately deposited or registered;

- Establishing whether property is received as security;
- Selecting a sample of items for testing to establish whether the AFS licensee has complied with the requirements relating to property received as security.

65. Division 4 of Part 7.8 and Corporations Regulations 7.8.08 relates to the receipt of monies by AFS licensees who are insurance brokers and agents of general and life insurance contracts but not the actual insurer. Auditors consider the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls to meet the relevant requirements and that these controls are operating effectively throughout the period.
66. Division 5 of Part 7.8 makes provision for the regulations to impose reporting requirements in relation to money to which Division 2 or 3 applies, or to an AFS licensee dealing in derivatives. Currently, there are no regulations relating to this Division.
67. Division 6 of Part 7.8 relates to financial records, statements and audit. The auditor considers the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.
68. Division 7 of Part 7.8 (other than section 991A) relates to other rules about conduct in licensed markets. The auditor considers firstly whether the legislation is applicable to the AFS licensee. If the legislation is applicable, the auditor then designs appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.

Limited Assurance on Certain Statements Made in FS 70 Statement relating to Dealing with Clients' Money and Dealing with Other Property of Clients (FS 71, section 3)

- 65.69. The FS 71 audit report requires limited assurance contains a FS 70 statement on certain statements at paragraphs 7 (whether the AFS licensee received client monies), 8 (whether the AFS licensee received client property) and 9 (whether the AFS licensee received a loan from a client) of FS 70. The auditor considers the AFS licensee's statements on FS 70 and through performing evidence gathering¹⁵ procedures including, knowledge of the client, corroborative enquiry and representations from management, obtains sufficient appropriate audit evidence to conclude whether anything has come to the auditor's attention to believe that the statements in the form FS 70 are not true appropriate.

Financial Requirements (FS 71, sections 4-8)

- 66.70. The FS 71 audit report requires a combination of reasonable assurance opinions and limited assurance conclusions on the AFS Licensee's compliance with prescribed financial requirements and other relevant legislation. The auditor considers the relevant financial requirements by referring to the licence conditions and obtains sufficient appropriate audit evidence to reach a reasonable assurance opinion or limited assurance conclusion.

- 67.71. Audit evidence may be gathered through enquiry and observation, tests of control, substantive testing and representations from management. The amount of evidence from each source is a matter for the auditors' professional judgement. It is unlikely that sufficient assurance may be obtained from only performing one type of testing. The type and extent of procedures will be based on the complexity of the AFSL, nature of business and initial risk assessment. When auditing compliance with the AFS Licensee's financial requirements throughout the period, it is important for the auditor to:

¹⁵ The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and contains information and guidance that the auditor may find helpful in determining the evidence applicable to compliance engagements.

- (a) understand how the AFS licensee derives their calculations, so the auditor can conclude as to whether this method is in accordance with the requirements;
- (b) ascertain whether all the calculations prepared during the period demonstrate a compliant position; and
- (c) select a sample number of calculations to test for accuracy based on underlying financial information.

Cash Needs Requirement – Assurance Considerations

68.72. ASIC requires reasonable assurance and limited assurance on the entity's compliance with the AFS licensee's financial requirements for the entire year, not just year-end. Hence, evidence-gathering procedures will need to include an understanding of the processes adopted by the AFS licensee to ensure compliance throughout the year, such as formal policies, monthly calculations, use of standard calculation templates and monitoring by the AFS licensee's board or appropriate delegate. The auditor considers testing to be performed on a sample basis depending on the assessment of effectiveness of controls.

69.73. If the AFS licensee has adopted Option 1 for the cash needs requirement or is subject to a tailored cash needs requirement, the auditor considers compliance throughout the period with the cash holding requirement in Part (e) of the Option 1 definition, or with the cash holding requirement per the applicable ASIC Class Order (CO 12/752 or CO 13/760 or CO 13/761) as appropriate.

70.74. The auditor considers obtaining the cash flow projections throughout the relevant period and determines whether the cash flow projections are either:

- (a) a projection of the AFS licensee's cash flows over at least the next 3 months based on the AFS licensee's reasonable estimate of what is likely to happen over this term (Option 1); or
- (b) a projection of the AFS licensee's cash flows over at least the next 3 months based on the AFS licensee's estimate of what would happen if the AFS licensee's ability to meet its liabilities over the projected term (including any liabilities the AFS licensee might incur during the term of the projection) is adversely affected by commercial contingencies taking into account all contingencies that are sufficiently likely for a reasonable AFS licensee to plan how they might manage them (Option 2); or
- (c) a projection of the AFS licensee's cash flows over at least the next 12 months based on the AFS licensee's reasonable estimate over what is likely to happen over this term; and is approved at least quarterly by those charged with governance (tailored cash needs requirement).

The auditor considers establishing how often and when the cash flow projection is updated to ensure it continuously covers at least the next 3 months (12 months – tailored cash needs requirement).

71.75. The auditor considers obtaining the AFS licensee's documented assumptions used to prepare the cash flow projections and checking whether the assumptions have been correctly applied in preparing the projections. This may include ensuring that the documented assumptions on the timing of cash flows have been correctly applied to budgeted revenues, expenses and capital expenditure.

72.76. Based on the cash flow projections already obtained, the auditor considers whether there is evidence that the cash flow assumptions are not appropriately documented or that the projections do not demonstrate that the AFS licensee had access as needed to sufficient financial resources at all times in compliance with paragraphs (b) and (d) of either the Option 1 or Option 2 definitions or paragraphs 3(c) or 3(e)(i) of the tailored cash needs requirements of ASIC Class Orders CO 12/752, 13/760 or 13/761 throughout the period. The

auditor considers whether the documentation is sufficient to enable the auditor to ascertain whether the assumptions have been correctly applied in preparing the projections. This may involve reviewing the documentation of budget assumptions if the cash flow documentation does not stand alone. The auditor may consider the use of specialists in this area.

- | 73.77. Based on reviewing the assumptions in line with the auditor's knowledge of the business and on enquiries of management, the auditor considers whether there is evidence that the assumptions used are unreasonable. This may involve obtaining an understanding of the AFS licensee's budgeting process if budgets are used to prepare the cash flow projections, or considering the historical accuracy of the assumptions in predicting actual cash flows.
- | 74.78. If the licensee relies on Option 2, then based on reviewing the basis of selecting the assumptions in line with the auditor's knowledge of the business and on enquiries of management, the auditor considers determining whether there is evidence that the basis for selecting the assumptions is unreasonable.
- | 75.79. Under Option 3, where the AFS Licensee does not prepare a cash flow projection, but instead relies on a financial commitment from an Australian ADI, or comparable foreign institution, (under licence condition 13(c)(iii)) the audit report is required to contain a statement about whether the licensee has obtained an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors.
- | 76.80. Where the AFS licensee is a subsidiary of an Australian ADI or ASIC-approved prudentially regulated body that does not prepare cash flow projections, on the basis of its expectation concerning the adequacy of resources (under licence condition 13(c)(iv)), the audit report is required to contain a statement about whether the auditor has any reason to believe that the basis for selecting the assumptions documented by the AFS licensee in forming the expectation is unreasonable.
- | 77.81. Where the AFS licensee uses group cash flow projections to meet the cash needs requirement, on the basis of alternative A (under licence condition 13(c)(v)), the auditor is required to include an audit opinion on whether the parent entity has provided an enforceable and unqualified commitment to pay on demand an unlimited amount to the AFS licensee, or to meet the AFS licensee's liabilities (including any additional liabilities that the AFS licensee might incur while the commitment applies).
- | 78.82. In addition, when relying on the Group cash flow projections under licence condition 13(c)(v), the licensee auditor should be mindful of the requirement for the parent entity auditor to provide a separate opinion modelled on the Option 1 or 2 audit requirement and that this audit report is required to be submitted at the same time as the FS 71 opinion (under licence condition 13(c)(v)(D)).
- | 79.83. Where the AFS licensee relies on alternative B (under licence condition 13(d)(v)), the audit report is required to contain a statement about whether the auditor has any reason to believe that the documented basis for selecting the assumptions, on which the AFS licensee's expectation concerning the adequacy of the resources required under alternative B, is unreasonable.

Limited Assurance on Risk Management Systems ([FS 71, sections 4-8](#))

- | 80.84. FS 71 requires limited assurance on risk management systems to ensure ongoing compliance with financial requirements ([included as part of Opinion 3 on FS 71](#)). Section 912A(1)(h) requires the AFS licensee to have adequate risk management systems. To satisfy this obligation, ASIC expects that the risk management systems will specifically deal with the risk that the AFS licensee's financial resources will not be adequate to ensure that they are able to carry on their business in compliance with their licence obligations.

81. Example limited assurance conclusions on risk management systems are contained within Appendix 1.

Assurance Considerations

82.85. ASAE ~~xx-3150~~ requires the auditor to perform procedures to determine whether the AFS licensee has designed controls that are suitable to meet the requirements of section 912A(1)(h) and then designs procedures to test that these controls have operated effectively throughout the period. Having regard to the risk of inadequate financial resources, these procedures may include:

- Obtaining an understanding of the risk management systems (RMS) and the process to identify material risks;
- Consideration as to whether a formal documented risk management system exists, although the formality and extent of the processes required will depend on the size, nature and complexity of the business; and
- Obtaining periodic calculations of compliance with financial requirements, and consideration of processes that may exist to identify and address matters that may arise between these periodic calculations that have the potential to cause non-compliance with the financial requirements, although the extent of these processes will depend on how much of a buffer the AFS licensee has above the requirements and the sensitivity of these buffers to fluctuations in the performance and financial position of the AFS licensee.

There is no expectation that the auditor expresses assurance conclusions on the adequacy of the specific controls of the risk management system.

83.86. As part of the limited assurance procedures, the auditor may seek the following types of information and documentation:

- Copies of the RMS documents that set out the AFS licensee's RMS during the period;
- Documentation that identifies and describes the systems, policies, procedures and structures that are in place to manage identified risks and representations that such systems, policies, procedures and structures have been complied with;
- Minutes of the meetings of those responsible for monitoring compliance with aspects of the RMS;
- Internal audit reports (if applicable);
- Certifications if made by the AFS licensee and relevant supporting documentation to substantiate compliance with the RMS during the reporting period; and
- Other supporting evidence to confirm that the controls identified in the RMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each AFS licensee.

Reasonable Assurance on Certain Provisions in Part 7.8 of the Corporations Act

84. The FS 71 audit report requires reasonable assurance on the control environment to achieve compliance with the requirements of Divisions 2, 3, 4, 5 and 6 of Part 7.8 of the Corporations Act and Division 7 of Part 7.8 other than section 991A. These provisions include:

- Dealing with clients' money.

- Dealing with other property of clients.
- Special provisions relating to insurance.
- Obligations to report.
- Financial records, statements and audit.
- Other rules about conduct (i.e.: giving priority to client orders, transmission of instructions through licensed markets, maintaining records of instruction, dealing with non-licensees and employees).

Assurance Considerations

85. In assessing the control environment, the auditor needs to determine which of the controls at the AFS licensee are necessary to achieve the control objectives relating to compliance with Divisions 2,3,4,5 and 6 of Part 7.8 of the Corporations Act; and Division 7 of Part 7.8 of the Corporations Act (other than section 991A).
86. Where the auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve a control objective, if operating effectively, this may constitute a deficiency in relation to the suitability of design which would result in the controls being ineffective.
87. The auditor assesses the risk of the controls necessary to achieve the compliance requirements not operating effectively and uses professional judgement in determining the specific nature, timing and extent of procedures to be conducted.
88. Division 2 of Part 7.8 subdivision A and Corporations Regulations 7.8.01 – 7.8.05 relates to handling of client money including:
 - What constitutes client money?
 - Establishing an approved trust account.
 - Payment of client money into the trust account within one business day.
 - Circumstances where money can be withdrawn from the trust account.
 - Treatment of interest on client money.
89. The auditor establishes whether the AFS licensee holds client money and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls that are suitable to meet the relevant requirements; and then tests that those controls have operated effectively throughout the period. The auditor may select items for testing described below to obtain evidence regarding the operating effectiveness of the controls:
 - to establish whether client money received has been appropriately paid into the trust account.
 - to establish whether withdrawals from the trust account are in accordance with Corporations Regulation 7.8.02. If an AFS licensee does hold client money, the auditor considers whether they also have to comply with the Surplus Liquid Funds requirement.
 - of trust account reconciliations to establish whether client and AFS Licensee money is properly separated, including that non-client money is properly identified and separated on a timely basis in accordance with the Corporations Regulation 7.8.01.

90. Division 2 of Part 7.8 subdivision B and Corporations Regulations 7.8.06 relates to monies paid to an AFS licensee by way of a loan from a client, including:
- What constitutes a loan from a client (excludes deposit and debenture payments)?
 - Establishing an approved trust account.
 - Payment of money lent into the trust account within 1 business day.
 - That a statement is required to be given to the client setting out the terms and conditions of use of the loan and the purpose for which funds will be used.
 - The requirement to only use funds for the specified purpose outlined in the terms and conditions or subsequently agreed to in writing.
 - The auditor establishes whether the AFS licensee has received a loan from a client and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
 - Selecting a sample of items for testing to establish whether money received has been appropriately paid into the trust account;
 - Testing to establish whether clients have been given the appropriate statements;
 - Selecting a sample of items for testing to establish whether money lent has been used for an agreed purpose.
91. Division 3 of Part 7.8 and Corporations Regulation 7.8.07 relates to the handling of property other than money given to the AFS licensee, including:
- What constitutes client property?
 - How the AFS licensee deposits or registers that client property.
 - Circumstances in which an AFS licensee can hold property as security.
 - The requirement to return secured property to the client within one business day of the client settling their obligation to the AFS licensee.
 - The requirement to provide clients with statements of property held as security every 3 months.
92. The auditor establishes whether the AFS licensee handles client property. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the requirements of Division 3 of Part 7.8 and Corporations Regulations 7.8.07; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
 - Selecting a sample of items for testing to establish whether property received has been appropriately deposited or registered;
 - Establishing whether property is received as security;

- Selecting a sample of items for testing to establish whether the AFS licensee has complied with the requirements relating to property received as security.
93. Division 4 of Part 7.8 and Corporations Regulations 7.8.08 relates to the receipt of monies by AFS licensees who are insurance brokers and agents of general and life insurance contracts but not the actual insurer. Auditors consider the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls to meet the relevant requirements and that these controls are operating effectively throughout the period.
94. Division 5 of Part 7.8 makes provision for the regulations to impose reporting requirements in relation to money to which Division 2 or 3 applies, or to an AFS licensee dealing in derivatives. Currently, there are no regulations relating to this Division.
95. Division 6 of Part 7.8 relates to financial records, statements and audit. The auditor considers the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.
96. Division 7 of Part 7.8 (other than section 991A) relates to other rules about conduct in licensed markets. The auditor considers firstly whether the legislation is applicable to the AFS licensee. If the legislation is applicable, the auditor then designs appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.

Statement on Section 990K(2) Matters (FS 71, section 11)

87. FS 71 requires a statement about any matter referred to in section 990K(2) of the Corporations Act and covers the year under audit and up until the date the FS 71 auditor's report is signed. This section 990K(2) statement only deals with those matters that have not already been reported by the auditor as required under section 990K(1). Given the 7 day reporting time frame under section 990K, it is likely that for most matters, the auditor would not wait until they lodge FS 71 to report matters to ASIC. The section 990K(2) statement is not part of the opinion section in FS 71.
- 97.88. If a section 990K matter has been reported by the auditor to ASIC, this does not require re-reporting as a specific section 990K matter in section 11 of FS 71. However, such matters may still need to be included in section 2-8 of FS 71 as the basis for a modified opinion/conclusion or in section 9 of FS 71 as a non-material matter.
- 98.89. Section 990K(2) requires a report to be given in relation to any matter that, in the opinion of the auditor:
- has adversely affected, is adversely affecting or may adversely affect the ability of the AFS licensee to meet the AFS licensee's obligations as an AFS licensee; or
 - constitutes or may constitute a contravention of:
 - a provision of Subdivision A or B of Division 2 (or a provision of regulations made for the purposes of such a provision); or
 - a provision of Division 3 (or a provision of regulations made for the purposes of such a provision); or
 - a provision of Subdivision B or C of this Division (or a provision of regulations made for the purposes of such a provision); or
 - a condition of the AFS licensee's licence; or

- (c) constitutes an attempt to unduly influence, coerce, manipulate or mislead the auditor in the conduct of the audit.

Assurance Considerations

- 99.90.** If the auditor becomes aware of the above relevant matters (a) - (c) during the course of the audit of the financial statements, performing work on FS 71 or undertaking other audit work (e.g. Managed investments compliance plan audits), they have an obligation to report on them. If the auditor becomes aware of a section 990K(2) matter that is outside the Corporations Act sections under audit, then the auditor is required to report on these section 990K(2) matters but has no obligation to look for matters outside the sections under audit.
- 100.91.** Apart from the requirement to report section 990K(2) breaches in FS 71, section 990K(1) requires auditors to report such breaches to ASIC (and the AFS Licensee and any relevant market or clearing authority e.g. ASX for stockbrokers) within 7 days of becoming aware of the matter. Auditors consider this obligation at all times of the year, but particularly during the planning, interim and final stages of their audits. The AFS licensee is required to report any such breaches as soon as practicable and within 10 business days of becoming aware of the matter as required by section 912D(1B). The auditor is expected to report breaches even if the AFS Licensee has already reported same.
- 101.92.** There is a potential conflict between the auditor's obligation to report *any* breaches and the AFS licensee's obligation to only report *significant* breaches to ASIC. An opinion or conclusion is not provided on the 990K statement in the FS 71. The auditor separately considers whether a matter reported in the statement also impacts the audit opinion within the FS 71 report.
- 102.93.** As the section 990K(2) statement specifically covers both the financial year and the period between the end of the financial year and the date of signing the FS 71 auditor's report (unlike the other reporting requirements in FS 71), the auditor is obliged to formally consider the existence of relevant matters up to the date of signing the report. To determine the existence of such matters, the auditor considers matters including:
- Reading minutes of the meetings of those charged with governance, and compliance, audit and executive committees, held after the reporting date, and enquiring about matters discussed at meetings for which minutes are not yet available.
 - Obtaining copies of all correspondence with ASIC and any other relevant regulators up to the date of signing.
 - Enquiring of management as to whether any subsequent events have occurred which might represent matters referred to under section 990K(2).

Overall Assurance Reporting Considerations

- 103.94.** Due to the nature of audit testing and other inherent limitations of an audit, together with the inherent limitations of the AFS licensee and its related licence conditions, there is a possibility that a properly planned and executed audit will not detect all deficiencies in the AFS licensee's licence conditions. Accordingly, the audit opinion under section 989B(3) *of the Corporations Act* is expressed in terms of reasonable or limited assurance (as appropriate) and cannot constitute a guarantee that the AFS licensee is completely free from any deficiency, or that all compliance breaches have been detected.
- 104.95.** There are also practical limitations in requiring an auditor to perform a continuous examination of the AFS licensee, and form an opinion that the entity has complied at all times with the Corporations Act during the period covered by the AFS licensee audit report. However, the auditor performs tests periodically throughout the financial year to obtain evidence and obtain reasonable assurance that the measures complied with the written descriptions and were adequate throughout the period under examination.

105.96. Prior to issuing the FS 71 audit report, the auditor considers obtaining a written representation from the directors of the AFS licensee which contains their assertions that the AFS licensee has complied with the licence conditions during the financial year and up to the date the FS 71 audit report is signed, and that the AFS licensee continues to meet the requirements of Part 7.8 of the Corporations Act. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, ASAE 3000. An example management representation letter is contained in Appendix 32.

106.97. The FS 71 audit report is an ASIC prescribed form and can be found on the ASIC web site www.asic.gov.au under “Download Forms”. ASIC requires form FS 71 to be lodged in the prescribed form and that no modifications or deletions are made, unless consented to by ASIC.

107.98. It is important to check the ASIC website to ensure that the latest version of FS 71 is adopted.

Communications with Those Charged with Governance

108.99. Under ASAE 3000 and ASAE 3100, the auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. In addition, Auditing Standard ASA 260 *Communication with Those Charged With Governance* (ASA 260), ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (ASA 265) contains information that the auditor may find useful when communicating with Those Charged with Governance. Examples of such matters may include:

- The general approach and overall scope of the engagement, or any additional requirements;
- Fraud or information that indicates that fraud may exist;
- Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement is of sufficient importance to merit the attention of those charged with governance;
- Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement;
- Compliance Breaches; and
- Expected exceptions modifications to the auditor’s report ([ASIC form FS 71](#)).

109.100. The auditor informs those charged with governance of the AFS licensee of those uncorrected misstatements/compliance breaches, other than clearly trivial amounts, aggregated by the auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

Conformity with International Pronouncements

110.101. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this GS.

Appendix 1

(Ref: Para.24)

APPENDIX 1

EXAMPLE FS 71 PARAGRAPH 3 INSERTIONS

Example 1	Paragraph 3 for an AFS licensee regulated by APRA
Example 2	Paragraph 3 for a Market or Clearing Participant
Example 3	Paragraph 3 relying on Option 1 or Option 2
Example 4	Paragraph 3 relying on licence condition 13(e)(iii) (Option 3)
Example 5	Paragraph 3 relying on licence condition 13(e)(iv) (Option 4)
Example 6	Paragraph 3 relying on licence condition 13(e)(v) (Option 5)
Example 7	Paragraph 3 responsible entities or IDPS operators subject to ASIC Class Order CO 13/760 <i>Financial Requirements for Responsible Entities and Operators of Investor-Directed Portfolio Services</i>
Example 8	Paragraph 3 custodial or depository services subject to ASIC Class Order CO 13/761 <i>Financial Requirements for Custodial or Depository Service Providers</i>
Example 9	Paragraph 3 retail OTC derivative issuers subject to ASIC Class Order CO 12/752 <i>Financial Requirements for Retail OTC Derivative Issuers</i>

Example 1: Paragraph 3 for an AFS licensee regulated by APRA

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and applies where the AFS licensee is a body regulated by APRA for the entire financial year. This example also applies if the AFS licensee is both a body regulated by APRA and a market participant or clearing participant.

3. Except as stated at paragraph 7, the licensee relied on being a body regulated by the Australian Prudential Regulation Authority ("APRA") for the financial year and in my/our opinion the licensee was a body regulated by APRA throughout the financial year.

Example 2: Paragraph 3 for a Market or Clearing Participant

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and applies where the AFS licensee was a market participant or clearing participant for the entire financial year and is not a body regulated by APRA.

3. Except as stated at paragraph 7, based on the definitions under the licensee's licence, the licensee relied on being a market participant or a clearing participant for the financial year, and in my/our opinion, the licensee was a participant in the market conducted by [ASX market]; or [Chi X market]; or [ASX 24 market], and restricted its financial services business to participating in the ASX 24 market and incidental business]; or [Licensed CS facility operated by ASX Clear Pty Limited]; or [Licenced CS facility operated by ASX Clear (Futures) Pty Limited, and restricted its financial services business to participating in the licensed CS facility and incidental business]; or [APX market] throughout the financial year.

Example 3: Paragraph 3 relying on Option 1 or Option 2

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and is for AFS licensees not regulated by APRA or market participants or clearing participants and where the AFS licensee is relying on satisfying the cash needs requirement by Option 1 or Option 2. The licence conditions specified have been taken from PF 209 reissued in November 2013, however the auditor is expected to use the actual licence conditions of the AFS licensee.

3. Except as stated at paragraph 7:

- (a) in my/our opinion, for the financial year, the licensee:
 - (i) complied with all the financial requirements under conditions 13 to 26 (inclusive) of this licence, other than paragraph 13(e) of this licence, [except for paragraph (e) of the definition of Option 1 under this licence if the licensee purports to comply with Option 1]; and
 - (ii) had at all times a projection (covering at least the following 3 months) that purported to, and appears on its face to comply with, [paragraph (a) of the definition of Option 1] or [paragraph (a) of the definition of Option 2]; and
 - (iii) correctly calculated the projections on the basis of the assumptions the licensee adopted for the projections described in subparagraph 3(a)(ii) above; and
- (b) based on my/our review, following an examination of the documents the licensee relied on in complying with Option 1 or Option 2, we have no reason to believe that:
 - (i) the licensee did not satisfy the requirements of subsection 912A(1)(h) of the Corporations Act for managing the risk of having insufficient financial resources to comply with the conditions of this licence; and
 - (ii) the licensee failed to comply with the cash needs requirement using either Option 1 or Option 2 (as applicable) except for paragraphs (a), (c) and (e) of the definition of Option 1 or paragraphs (a) and (c) of the definition of Option 2; and
 - (iii) if the licensee relied on Option 1, the assumptions the licensee adopted for its projections were unreasonable; or
 - (iv) if the licensee relied on Option 2, the basis for the selection of assumptions to meet the requirements for the projections adopted was unreasonable.

Example 4: Paragraph 3 relying on licence condition 13(e)(iii) (Option 3)

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and is for AFS licensees not regulated by APRA or market participants or clearing participants and where the AFS licensee is relying on satisfying the cash needs requirement with PF 209 licence condition 13(e)(iii). The licence conditions specified have been taken from PF 209 reissued in November 2013, however the auditor is expected to use the actual licence conditions of the AFS licensee.

3. Except as stated at paragraph 7:

- (a) in my opinion the licensee has complied with all the financial requirements under conditions 13 to 26 (inclusive) of this licence, other than paragraph 13(e) of this licensee for the financial year; and
- (a) in my/our opinion, for the financial year when the licensee relied on subparagraph 13(e)(iii), the licensee has obtained from [an Australian ADI] or [a

foreign deposit taking institution approved in writing by ASIC as an eligible provider] an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors.

Example 5: Paragraph 3 relying on licence condition 13(e)(iv) (Option 4)

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and is for AFS licensees not regulated by APRA or market participants or clearing participants and where the AFS licensee is relying on satisfying the cash needs requirement with PF 209 licence condition 13(e)(iv). The licence conditions specified have been taken from PF 209 reissued in November 2013, however the auditor is expected to use the actual licence conditions of the AFS licensee.

3. Except as stated at paragraph 7:

- (a) in my opinion the licensee has complied with all the financial requirements under conditions 13 to 26 (inclusive) of this licence, other than paragraph 13(e) of this licence for the financial year; and
- (a) in my opinion, for the financial year when the licensee relied on subparagraph 13(e)(iv), following an examination of the documents prepared for subparagraph 13(e)(iv)(C), the licensee complied with subparagraph 13(e)(iv)(A) and subparagraph 13(e)(iv)(C) for the period to which the report relates; and
- (b) based on my/our review, for the financial year when the licensee relied on subparagraph 13(e)(iv), following an examination of the documents prepared for subparagraph 13(e)(iv)(C), we have no reason to believe that:
 - (i) the licensee did not satisfy the requirements of subsection 912A(1)(h) of the Corporations Act for managing the risk of having insufficient financial resources to comply with the conditions of this licence; and
 - (ii) the basis for the selection of the assumptions adopted was unreasonable.

Example 6: Paragraph 3 relying on licence condition 13(e)(v) (Option 5)

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and is for AFS licensees not regulated by APRA or market participants or clearing participants and where the AFS licensee is relying on satisfying the cash needs requirement with PF 209 licence condition 13(e)(v). The licence conditions specified have been taken from PF 209 reissued in November 2013 however the auditor is expected to use the actual licence conditions of the AFS licensee.

3. Except as stated at paragraph 7:

- (a) in my opinion the licensee has complied with all the financial requirements under conditions 13 to 26 (inclusive) of this licence, other than paragraph 13(e) of this licence for the financial year; and
- (a) in my opinion, for the financial year when the licensee relied on subparagraph 13(e)(v), the licensee complied with licence condition 13(e)(v)(A) and (B); and
- (b) either:
 - (i) in my opinion, when the licensee relied on Alternative A in subparagraph 13(e)(v)(E), the parent entity has provided an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee or to meet the licensee's liabilities; or

- (ii) based on my/our review, for the financial year when the licensee relied on Alternative B in subparagraph 13(e)(v)(E), following an examination of the documents prepared for Alternative B, we have no reason to believe that:
- the licensee did not satisfy the requirements of subsection 912AA(1)(h) of the Corporations Act for managing the risk of having insufficient financial resources to comply with the conditions of this licence; and
 - the basis for the selection of the assumptions adopted was unreasonable.

Example 7: Paragraph 3 responsible entities or IDPS operators subject to ASIC Class Order CO 13/760 Financial Requirements for Responsible Entities and Operators of Investor Directed Portfolio Services

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and applies where the AFS licensee is a responsible entity or an IDPS operator and is relying on satisfying a tailored cash needs requirement. The assurance requirements have been taken from section 912AA of the Corporations Act as introduced by ASIC Class order CO 13/760 (912AA).

3. Except as stated at paragraph 7:
- (a) in my/our opinion, for the financial year, the licensee:
 - (i) complied with paragraph 912AA(3)(b) and subsections 912AA(4) and (8) and other financial requirements of the licence; and
 - (ii) had, at all times a projection that purports to, and on its face to, comply with paragraph 912AA(3)(a); and
 - (iii) correctly calculated the projection in paragraph 912AA(3)(a) on the basis of the assumptions the licensee used for the projections; and
 - (b) following an examination of the calculations, assumptions and description prepared under paragraph 912AA(3)(c) and relied on by the licensee in complying with paragraph 912AA(3)(a), the projections prepared under paragraph 912AA(3)(a) and the document prepared under paragraph 912AA(3)(e), we have no reason to believe that:
 - (i) the licensee did not have adequate systems for managing the risk of having insufficient financial resources to comply with subsections 912AA(4) and (8) other financial requirements in conditions on its license; or
 - (ii) the licensee failed to comply with paragraph 912AA(3)(c); or
 - (iii) the licensee will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; or
 - (iv) the licensee will not hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under subsection 912AA(8); or
 - (v) the assumptions the licensee adopted for its projection in paragraph 912AA(3)(a) were unreasonable.

Example 8: Paragraph 3 custodial or depository services subject to ASIC Class Order CO 13/761 Financial Requirements for Custodial or Depository Service Providers

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and applies where the AFS licensee was authorised to provide a custodial or depository service and is relying on satisfying a tailored cash needs requirement. The assurance requirements have been taken from section 912AC of the Corporations Act as introduced by ASIC Class order CO 13/761 (912AC)

3. Except as stated at paragraph 7:

- (a) in my/our opinion, for the financial year, the licensee:
 - (i) Either:
 - * complied with paragraph 912AC(3)(b) and subsections 912AC(4) and (7) and other financial requirements in conditions on its licensee¹⁶; or
 - * complied with paragraph 912AC(3)(b) and other financial requirements in conditions on its licence and did not need to comply with subsections 912AC(4) and (7) on the basis that subsection 912AC(5) applied¹⁷; and
 - (ii) had, at all times a projection that purports to, and on its face to, comply with paragraph 912AC(3)(a); and
 - (iii) correctly calculated the projection in paragraph 912AC(3)(a) on the basis of the assumptions the licensee used for the projection; and
- (b) following an examination of the calculations, assumptions and description prepared under paragraph 912AC(3)(c) and relied on by the licensee in complying with paragraph 912AC(3)(a), the projections prepared under paragraph 912AC(3)(a) and the document prepared under paragraph 912AC(3)(e), we have no reason to believe that:
 - (i) the licensee did not have adequate systems for managing the risk of having insufficient financial resources to comply with subsections 912AC(4) and (7) (if applicable) and other financial requirements in conditions on its license; or
 - (ii) the licensee failed to comply with paragraph 912AC(3)(c); or
 - (iii) the licensee will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; or
 - (iv) the licensee will not hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under subsection 912AC(7); or
 - (v) the assumptions the licensee adopted for its projection in paragraph 912AC(3)(a) were unreasonable; or
- (c) We have no reason to believe that the licensee did not satisfy the requirement in paragraph (b) of the definition of incidental provider in subsection 912AC(12).

Example 9: Paragraph 3 retail OTC derivative issuers subject to ASIC Class Order CO 12/752 Financial Requirements for Retail OTC Derivative Issuers

¹⁶ This paragraph applies if the licensee is an operating custodian or an incidental provider which holds the assets itself.

¹⁷ This paragraph applies on the basis that the licensee is an incidental provider and all assets were held by another complying custodian in compliance with subsection 912AC(5).

This suggested example paragraph 3 is to be included on ASIC's form FS 71 and applies where the AFS licensee was a retail OTC derivative issuer and is relying on satisfying a tailored cash needs requirement. The assurance requirements have been taken from section 912AB of the Corporations Act as introduced by ASIC Class order CO 12/752 (912AB).

3. Except as stated at paragraph 7:

- (a) in my/our opinion, for the financial year, the licensee:
 - (i) complied with subsections 912AB(4) and (5), and any other financial requirements in conditions on its licence; and
 - (ii) had, at all times a projection that purports to, and appears on its face to, comply with paragraph 912AB(3)(a); and
 - (iii) correctly calculated the projection in paragraph 912AB(3)(a) on the basis of the assumptions the licensee adopted for the projection; and
- (b) following an examination of the calculations, assumptions and description prepared under paragraph 912AB(3)(c) and relied on by the licensee in complying with paragraph 912AB(3)(a), we have no reason to believe that:
 - (i) the licensee did not satisfy paragraph 912A(1)(h) of the Corporations Act for managing the risk of having insufficient financial resources to comply with subsections 912AB(4) and (5) and other financial requirements in conditions on its license; or
 - (ii) the licensee failed to comply with paragraphs 912AB(3)(b), (c) or (d); or
 - (iii) the assumptions the licensee adopted for its projection in paragraph 912AB(3)(a) were inappropriate.

Appendix 21

(Ref: Para.33)

APPENDIX 2

EXAMPLE AUDIT ENGAGEMENT LETTER

The following example audit engagement letter is for use as a guide only, in conjunction with the considerations described in GS 003, and will need to be varied according to individual requirements and circumstances.

To [Title of Those Charged with Governance]

Section 989B(3) of the *Corporations Act 2001* (the Corporations Act) requires an Australian Financial Services Licence (AFSL) holder (AFS Licensee) to lodge with ASIC the auditor's report on the AFS licensee together with a profit and loss statement and balance sheet (being the audited financial statements).

The Corporations Act, *Corporations Regulations 2001*, ASIC regulatory documents and ASIC Class Orders determine the scope of the auditor's report. Reference to the auditor's report is also made in the conditions of the AFSL. Currently the required format of the auditor's report is set out in ASIC form FS 71.

This letter sets out in general terms, our understanding of the terms and objectives of our engagement as auditors of the AFSL of [name of company] (the Licensee) pursuant to section 989B(3) of the Corporations Act. This engagement is a separate engagement from our audit [and half year review] appointment[s] under the Corporations Act.

Scope

Our reporting will be in a form consistent with the requirements of ASIC form FS 71 which requires:

- Reasonable assurance that the profit and loss statement (Statement of Financial Performance) and balance sheet (Statement of Financial Position) and the notes thereto (financial statements) give a true and fair view of the financial performance and financial position of the AFS licensee for the year ended [date] and comply with all Australian Accounting Standards (covered by a separate engagement letter);
- Reasonable assurance on compliance with specified provisions of Part 7.8 of the Corporations Act (being Divisions 2 to 7, except for section 991A) (including relating to dealing with client money, property and insurance);
- Reasonable assurance on compliance with sections 981B and 982B of the Corporations Act (relating to the control and operation of trust accounts);
- Reasonable assurance that all necessary records, information and explanations for the purpose of the audit report were received;
- A combination of reasonable and limited assurance on compliance with AFSL conditions relating to financial requirements as prescribed by ASIC in regulations and class orders;
- **Limited assurance** A statement over statements made by the AFS licensee at paragraphs 7, 8 and 9 of ASIC form 70 in relation to receipt of client money, property or loans to which Part 7.8 of the Corporations Act applies; and
- A statement that during the performance of our duties as auditors of the AFS licensee, we have not become aware of any matters referred to in section 990K(2) of the Corporations Act during or since the financial year, that we have not previously reported to ASIC.

The responsibilities of the auditor

ASIC form FS 71 includes a combination of reasonable assurance opinions and limited assurance conclusions on the AFS licensee's compliance with AFSL conditions relating to financial requirements as prescribed by ASIC.

Where we are required to obtain reasonable assurance in relation to ASIC form FS 71, our audit procedures will be conducted in accordance with AUASB Standards, and accordingly will include such tests and procedures as we consider necessary in the circumstances. This will involve an examination of the internal controls used by the AFS licensee to comply with the financial requirements of the AFSL, the specified provisions of Part 7.8 and the control and operation of each account maintained for section 981B or section 982B of the Corporations Act.

Where we are required to obtain limited assurance in relation to ASIC form FS 71, our review procedures are conducted in accordance with Standards on Assurance Engagements. A review consists primarily of inspection of evidence and observation of, and enquiry about, the operation of the procedures and internal control of the financial risk management system and comparison and other such analytical review procedures we consider necessary. A review of this nature does not provide all the evidence that would be required in an audit and provides less assurance than an audit. We will not be performing an audit of the matters subject to review and we will not express an audit opinion on them.

Where we are required to obtain limited assurance in relation to projections, our review procedures will be conducted in accordance with Standards on Assurance Engagements and will be restricted to an examination on a test basis throughout the relevant period to determine whether the AFS licensee had projections in place and may include:

- a review of projections identified on a test basis to ensure that they were materially in accordance with the requirements of the Corporations Act; and
- testing that projections identified on a test basis were mathematically accurate based on the underlying assumptions as documented by the AFS licensee and that these assumptions are not unreasonable.

Our procedures are substantially less in scope than an audit conducted in accordance with AUASB Standards and obtain limited assurance.

Where we are required to obtain limited assurance in relation to the projections required under the cash needs requirements conditions of the AFSL, our review procedures will be conducted in accordance with AUASB Standards on Assurance Engagements in order to state whether anything has come to our attention, which causes us to believe that the AFS licensee did not satisfy the cash needs requirements. Our procedures are substantially less in scope than an audit conducted in accordance with AUASB Standards and obtain limited assurance.

Inherent Limitations

Internal Controls

Because of the inherent limitations of any internal control structure, it is possible that fraud, errors or non-compliance with laws and regulations may occur and not be detected. We will not audit the overall internal control structure (including procedures that do not relate to the financial requirements) and no opinion will be expressed as to its effectiveness. An audit is not designed to detect all weaknesses in control procedures or all instances of non-compliance with part 7.8 of the Corporations Act as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the AFS licensee. Also, projections of any evaluation of the control procedures to future periods are subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Projections

The projections prepared by [Those Charged with Governance] in accordance with the cash needs requirements conditions of the AFSL are based upon the achievement of certain economic, operating and developmental assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of projections. Actual results may vary materially from those projections and the variation may be materially positive or negative.

Auditor's obligation to report matters to ASIC

In accordance with section 990K of the Corporations Act, if during the course of or in relation to our assurance engagement we become aware of a matter referred to in section 990K(2) of the Corporations Act we are required to lodge a written report to ASIC within 7 days.

Responsibility of the AFS licensee

The [Title of Those Charged with Governance] of the AFS Licensee are responsible for:

- Establishing and maintaining effective internal control procedures relevant to the preparation and fair presentation of ASIC form FS 70 that is free from material misstatement, including control procedures in relation to compliance with the requirements of Part 7.8 of the Corporations Act, the conditions of the AFSL and the provisions of the financial services laws. These duties are imposed on the AFS licensee by the Corporations Act and the AFSL.
- The preparation and presentation of ASIC Form ~~FS~~^{FS} 70, and the information it contains.
- Complying with the requirements of the Corporations Act and the conditions of the AFSL.

Fees

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate]

Other

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

As part of our assurance process, we will request from [management, and where appropriate, Those Charged with Governance], written confirmation concerning representations made to us in connection with the assurance process.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of [Name of the AFS Licensee] as required by Section 989(B) of the Corporations Act.

Yours faithfully,

(signed)

.....
Name and Title

Date

Acknowledged on behalf of [entity] by (signed)

.....

Name and Title

Date

Draft

Appendix 32

(Ref: Para.99-96)

APPENDIX 32

EXAMPLE MANAGEMENT REPRESENTATION LETTER

[Client Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your engagement to report in accordance with section 989B(3) of the *Corporations Act 2001* (the Corporations Act) regarding the Australian Financial Services Licence (“AFSL”) of [Name of the AFS Licensee] (Licence No: [xx]) for the financial year ended [balance date].

We acknowledge our responsibility for the preparation of form FS 70 in accordance with Section 989B of the Corporations Act, the *Corporations Regulations 2001* (the Regulations) and the conditions of the Licensee’s AFSL, effective [date of AFS Licence] and that this responsibility includes designing, implementing and maintaining accounting records and effective internal control to ensure compliance with the conditions of the Licensee’s AFSL and the requirements of Part 7.8 of the Corporations Act.

We confirm, to the best of our knowledge and belief, the following representations:

General

1. We have made available to you, and your representatives:
 - (a) access to all information of which we are aware that is relevant to the preparation of Australian Securities and Investments Commission (ASIC) form FS 70 such as records, documentation and other matters;
 - (b) additional information that you have requested from us for the purpose of the engagement;
 - (c) unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence; and
 - (d) minutes of all meetings of (*shareholders, directors, and committees of directors*).
2. There:
 - (a) has been no knowledge of any fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
 - (b) has been no knowledge of any fraud, error or non-compliance with laws and regulations that could have a material effect on the either the form FS 70 for [Name of the AFS Licensee], or ongoing compliance with the AFSL; and
 - (c) has been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting or compliance practices that could have a material effect on form FS 70 of [Name of the AFS Licensee] or our ongoing ability to comply with financial services laws or conditions of the AFSL.

3. We have disclosed to you:

- (a) all significant facts relating to any frauds or suspected frauds which are known to us that may have affected compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act;
- (b) the results of our assessment of the risk of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act as a result of fraud;
- (c) all information in relation to allegations of fraud, or suspected fraud, affecting ASIC form FS 70 or compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act communicated by employees, former employees or others;
- (d) known actual or possible non-compliance with laws or regulations, that could have a material effect on ASIC form FS 70 in the event of non-compliance; and
- (e) all known actual or possible litigation and claims whose effects should be considered when preparing ASIC form FS 70 and compliance with the conditions of the Licensee's AFSL and the requirement of Part 7.8 of the Corporations Act.

4. We acknowledge our responsibility for the design and implementation of internal controls to detect fraud and error.

5. We acknowledge our responsibility for the preparation and presentation of a profit and loss statement, balance sheet and notes thereto in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the Corporations Act and the appropriate disclosures of all information required by statute.

ASIC Form FS 70

- 6. We confirm that all transactions have been properly recorded and reflected in the accounting records underlying form FS 70 and that we have in place adequate systems of accounting procedures and internal control to ensure that all transactions are recorded and that the recorded transactions are valid, accurate, authorised, classified and promptly recorded so as to facilitate the preparation of reliable financial information referred to in form FS 70.
- 7. We confirm that form FS 70, to which form FS 71 relates, has been prepared so as to be consistent with [Name AFS Licensee]'s audited financial report and it has been properly drawn up so as to provide the information required by directions issued by ASIC under the Corporations Act and the Corporations Regulations.
- 8. We confirm that all material and/or contentious issues which management or the directors have discussed in the course of preparing form FS 70 and any non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act, and the resolution of such issues have been discussed with you.
- 9. We confirm that the statements made in respect of paragraphs 7, 8 and 9 on FS 70 are correct.

Part 7.8 of the Corporations Act 2001

- 10. There has been no matter during or since the end of the year/period ended [selected date] which has adversely affected, is adversely affecting or may adversely affect our ability to meet our obligations as a AFS licensee or constitutes a contravention of :
 - (a) a provision of Subdivision A or B of Division 2 of Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or

- (b) a provision of Division 3 of Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or
 - (c) a provision of Subdivision B or C of Division 6 of the Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or
 - (d) a condition of the licence.
11. We have designed and operated controls effectively to ensure that we comply with Divisions 2, 3, 4, 4A, 5, 6 and 7 of Part 7.8 of the Corporations Act (other than section 991A).
12. We have operated and controlled each account required by sections 981B and 982B of the Corporations Act in accordance with those sections.
- Financial Requirements*
13. We have complied with all the financial requirements under the Licence throughout the year/period.
14. We acknowledge that we were a body regulated by the Australian Prudential Regulation Authority (“APRA”) / participant in the market conducted by the ASX Limited (“ASX”) or Chi-X / participant in the market conducted by the Australian Securities Exchange Limited (“ASX 24”) that restricted its financial services business to participating in the market and incidental business / participant in the licensed clearing and settlement facility operated by ASX Clear Pty Limited / participant in the licensed clearing and settlement facility operated by ASX Clear (Futures) Pty Limited and restricted its financial services business to participating in the licensed clearing and settlement facility and incidental business for the year ended [balance date]. **[delete if AFS licensee is not APRA regulated or a market or clearing participant]**
15. We have maintained adequate risk management systems throughout the year/period to manage the risk of having insufficient financial resources to comply with the conditions of the Licence. **[delete if APRA-regulated]**
16. We acknowledge our responsibility for the preparation of cash flow projections and the assumptions underpinning those projections, and confirm that the assumptions adopted for the projections were reasonable/the basis for the selection of assumptions to meet the requirements for the projections adopted was reasonable. **[delete as applicable depending on whether the licensee is complying with Option 1 or Option 2]**
17. We confirm that we have had our cash flow approved by [those charged with governance]; and have updated our projection of cash flows in line with the requirements of ASIC regulatory guide RG 166. **[delete if AFS licensee is not subject to tailored cash requirements]**
18. We confirm that we have access as needed to enough financial resources to meet our liabilities over the next 3/12 months, including any additional liabilities that we project we will incur during that term/we might incur during that term. **[delete as applicable depending on whether the AFS licensee is complying with tailored cash requirements, Option 1 or Option 2]** In relation to forecast financial information provided to you for the purpose of your report (in particular the cash needs requirements prescribed by Option 1 or Option 2 or the tailored cash need requirements as referred to in your AFSL and ASIC form FS 71), it is confirmed, to the best of our knowledge and belief, that:
- (a) the financial position and operating results for the forecast period reflect the best judgement of our directors and management based on expected future market conditions and the likely course of action to be taken;
 - (b) the accounting principles used in the preparation of the forecast data are consistent with those used in our historical financial statements and are the same as those

- expected to be used in the eventual preparation of the historical financial statements come the end of the forecast period;
- (c) there are no contingent liabilities, unusual contractual obligations or substantial commitments which would materially affect the financial forecast except as otherwise specifically disclosed to you;
 - (d) the key assumptions have been consistently applied during the forecast period; and
 - (e) no factors that may be relevant have been omitted.

Uncorrected Misstatements and Non Compliance Identified

- 19. We acknowledge that you have advised management of identified uncorrected misstatements, instances of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act; and identified weaknesses in the design of the internal controls that you became aware of as a result of your audit and review procedures.
- 20. We believe the effects of uncorrected misstatements, instances of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act; and weaknesses in the design of internal controls summarised [in Appendix [X]/below] pertaining to the year ended [balance date] (including the effects of prior year issues impacting the current year) are both individually, and in aggregate, immaterial or adequately reported ASIC.

Subsequent Events

- 21. No events have occurred subsequent to [balance date] that would require adjustment to form FS 70 at that date.

Additional Matters

- 22. We have reported any significant breaches to ASIC as required under:
 - (a) section 912D of the Corporations Act; and
 - (b) section 601FC(1)(l) of the Corporations Act **[delete if licensee is not a responsible entity of a managed investment scheme]**
- and have provided you with details of all breaches, reported and unreported, of the Licence or the Corporations Act that occurred during or since the end of the year/period.
- 23. We understand that your engagement has resulted in a combination of reasonable assurance opinions and limited assurance conclusions. Where you were required to obtain reasonable assurance we understand that your audit was conducted in accordance with AUASB Standards and was designed primarily for the purpose of expressing an opinion in relation to ASIC form FS 71 and that your audit procedures were limited to those you considered necessary in the circumstances. In addition, we understand that the limited assurance conclusions were also conducted in accordance with AUASB Standards and involved review procedures. These procedures result in you obtaining less assurance than that provided by an audit. For these conclusions you have not performed an audit and accordingly do not express an opinion on them.
- 24. [Include any additional matters relevant to the engagement]

Yours faithfully

Name of signing officer and title

Appendix 43

(Ref: Para.[20](#)[19](#)[22](#))

APPENDIX 43

SUMMARY OF FINANCIAL REQUIREMENTS APPLICABLE TO CERTAIN AFS LICENSEES

This table summarises and provides the regulatory references for certain financial and assurance requirements applicable to all non-exempt AFS Licensees, Responsible Entities, Operators of IDPS and Retail OTC derivative issuers. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

	Base Level requirements applicable to all non-exempt AFS Licensees	Responsible Entities and operators of IDPSs	Retail OTC derivative issuers	Custodial or depository services
Regulatory References	<ul style="list-style-type: none"> RG 166 Section B ASIC PF 209 paragraph 13 	<ul style="list-style-type: none"> RG 166 Appendix 2 and 3^{5} ASIC Class Order CO 13/760 	<ul style="list-style-type: none"> RG 166 Appendix 8^{5} ASIC Class Order CO 12/752 	<ul style="list-style-type: none"> RG 166 Appendix 4^{5} ASIC Class Order CO 13/761
Solvency and positive net assets	<ul style="list-style-type: none"> Ability to pay debts when due and payable Total assets exceeding total liabilities (unless using adjusted assets and liabilities [RG 166 Section E]^{5}) [RG 166.32 – RG 166.34] [ASIC PF 209 para 13] 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets
Cash needs	<ul style="list-style-type: none"> Not applicable where a tailored cash needs requirement applies Option 1 [RG 166.40–RG 166.44] Option 2 [RG 166.45–RG 166.47] Option 3 [RG 166.50] 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.205204–RG 166.205]; [RG 166.240237–RG 166.241238] At least 12 month cash flow projection Documentation of calculations and assumptions Documentation of 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.318314–RG 166.322318] At least 12 month rolling cash flow projection Documentation of calculations and assumptions Board approval of the cash 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.265263–RG 166.266264] At least 12 month cash flow projection Documentation of calculations and

	<ul style="list-style-type: none"> Option 4 [RG 166.51] Option 5 [RG 166.52] [ASIC PF 209 para 13] 	<ul style="list-style-type: none"> calculations and assumptions Board approval of the cash flow projections at least quarterly 	flow projections	<ul style="list-style-type: none"> assumptions Cash flow projections approved at least quarterly
NTA	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> [RG 166.209 – RG 166.232<ins>235</ins>; [RG 166.245<ins>242</ins> – RG 166.261] If requirements related to custody are satisfied or licensee is an IDPS operator, the greater of: <ul style="list-style-type: none"> \$150,000 or 0.5% of average value of scheme and IDPS property up to \$5 million or 10% of average RE and IDPS revenue If requirements related to custody are not satisfied or licensee performs custodial functions as an IDPS operator, the greater of: <ul style="list-style-type: none"> \$10 million or 10% of average RE and IDPS revenue 	<ul style="list-style-type: none"> RG 166.326<ins>322</ins> – RG 166.336<ins>332</ins> Greater of: <ul style="list-style-type: none"> \$1,000,000 or 10% of average revenue 	<ul style="list-style-type: none"> [RG 166.271<ins>269</ins> – RG 166.291<ins>289</ins>] Other than incidental¹⁸ providers (satisfy requirements for custodian) the greater of: <ul style="list-style-type: none"> \$10million or 10% of average revenue For incidental providers: <ul style="list-style-type: none"> If all assets are held by another complying custodian or eligible custodian – no NTA requirement; otherwise the greater of: <ul style="list-style-type: none"> \$150,000 or 10% of average revenue
Liquidity	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> [RG 166.212; RG 166.247<ins>244</ins>] 	<ul style="list-style-type: none"> [RG 166.327<ins>323</ins>] 50% of NTA in cash or cash 	<ul style="list-style-type: none"> [RG 166.272<ins>270</ins>] At least 50% of NTA in

¹⁸ Incidental provider is defined in RG 166.173.

		<ul style="list-style-type: none"> • Greater of \$150,000 or 50% of NTA in cash and cash equivalent; and • At least 100% of NTA in liquid assets 	<ul style="list-style-type: none"> • equivalents; and • 50% of NTA in liquid assets. 	<ul style="list-style-type: none"> cash and cash equivalent; and • At least 100% of NTA in liquid assets
Audit	<ul style="list-style-type: none"> • RA: Financial requirement; • RA/LA: Cash needs requirement • LA: s912A(1)(h) • [RG 166.62–RG 166.68] • [PF 209 para 28(d)] • GS 003 Appendix 1 examples 3–6 	<ul style="list-style-type: none"> • Combination RA and LA • Tailored audit requirements [RG 166.206 – RG 166.208]; [RG 166.242239 – RG 166.244241] • GS 003 Appendix 1 example 7 • GS 003 Appendix 1 example 8 • GS 003 Appendix 1 example 9 	<ul style="list-style-type: none"> • Combination RA and LA • Tailored audit requirements [RG 166.323319 – RG 166.325321] • GS 003 Appendix 1 example 8 • GS 003 Appendix 1 example 9 	<ul style="list-style-type: none"> • Combination RA and LA • Tailored audit requirements [RG 166.267265 – RG 166.70667] • GS 003 Appendix 1 example 8 • GS 003 Appendix 1 example 9

RA: Reasonable assurance

LA: Limited assurance

Draft

Appendix 54

(Ref: Para.22(a))

APPENDIX 54

TAILORED CASH REQUIREMENTS

This appendix *summarises* the tailored cash requirements needs for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the financial requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The financial requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The financial requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

To meet the cash needs requirement, the licensee is required to:

- (i) prepare a projection of the licensee's cash flows over at least the next 12 months (for retail OTC derivative issuers this is required to be done quarterly in March, June, September and December) based on the licensee's reasonable estimate of what is likely to happen over this period (retail OTC derivative issuers – revenue and expenses); and
- (ii) have the projection approved in writing at least quarterly by the licensee's directors (unless the licensee is a retail OTC derivative issuer or custodial or depository service provider who may then have the projection approved by partners or trustees of the licensee if the licensee is a partnership or a trust, or a person if the licensee is a natural person) as satisfying the requirements of paragraph (i); and
- (iii) document the calculations and assumptions used in preparing the projection, and describe in writing why the assumptions are appropriate; and
- (iv) update the projection of the licensee's cash flows if:
 - the projection ceases to cover at least the next 12 months (not a requirement for retail OTC derivative issuers); or
 - there is reason to suspect that an updated projection would differ materially from the current projection (not a requirement for retail OTC derivative issuers) or show that the licensee was not meeting the requirements in subparagraphs (v) below; and
- (v) document whether (retail OTC derivative issuers require a certification in writing by the persons referred to in (ii) above), based on the projection of the licensee's cash flows, the licensee:
 - will have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under the licensee's liquidity requirement; and
- (vi) make the projections available to ASIC on request (requirement for retail OTC derivative issuers only).

Appendix 65

(Ref: Para.1922(bd))

APPENDIX 65

TAILORED ASSURANCE REQUIREMENTS

This appendix summarises the tailored audit requirements applicable for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the audit requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The audit requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The audit requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

- (i) If the licensee is a responsible entity, operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Reasonable assurance that the licensee:

- ◊ complied with the requirement to have the projection approved in writing at least quarterly by the directors/partners/person and that the licensee has met the NTA and liquidity requirement of the licence, and any other financial requirements in conditions on its licence; and
- ◊ had, at all times, a projection over at least the next 12 months that purports to, and on appears on its face to be based on the licensee's reasonable estimate of what is likely to happen over this period; and
- ◊ correctly calculated the projection on the basis of the assumptions the licensee used for the projection; and

- (ii) If the licensee is a responsible entity or operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Limited assurance that the licensee:

- ◊ had adequate systems for managing the risk of having insufficient financial resources to meet the NTA requirement, cash/cash equivalent, and liquid asset holding requirement, and any other financial requirements in conditions on its licence; and
- ◊ did not fail to document the calculations and assumptions used in preparing the projection and describe in writing why the assumptions are appropriate; and
- ◊ will have access when needed to enough financial resources to meet their liabilities over the projected term of at least the next 12 months; and
- ◊ will hold at all times during the period to which the projection relates, in cash/cash equivalents and liquid assets, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents; and
- ◊ adopted assumptions for its projection that were not unreasonable; or

- ◊ (if the licensee complies with the NTA requirement for incidental providers) satisfied the definition of incidental provider.
- (iii) If the licensee is a retail OTC derivative issuer then ASIC requires the following:
 - Reasonable assurance that the licensee:
 - ◊ complied with the NTA and liquidity requirements of the licence and other financial requirements in conditions on its licence; and
 - ◊ had at all times a projection that purports to, and appears on its face to, comply with the requirement to prepare in each March, June, September and December, a projection of the licensee's cash flows over at least the next 12 months based on the licensee's reasonable estimate of revenues and expenses over this period; and
 - ◊ correctly calculated the projection on the basis of the assumptions the licensee adopted for the projection; and
 - Limited assurance that the licensee:
 - ◊ satisfied s912A(1)(h) of the *Corporations Act 2001* for managing the risk of having insufficient financial resources to meet the NTA and liquidity requirement of the licensee and any other financial requirements in conditions on its licence; and
 - ◊ adopted assumptions for its projection that were not inappropriate; and
 - ◊ had their projections approved in writing by their directors/partners/person as being based on the licensee's reasonable estimate of revenues and expenses over the period; and
 - ◊ documented the calculations and assumptions used in preparing the projection, and described in writing why the assumptions are appropriate; and
 - ◊ updates the cash flow projections if there is reason to suspect that an updated projection would show that the licensee :
 - will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents.

Appendix 76

(Ref: Para.2219(db))

APPENDIX 76

CASH AND ASSURANCE REQUIREMENTS

This appendix summarises the cash and assurance requirements, that are detailed in ASIC Pro Forma 209, for licensees that are not regulated by APRA or are not market or clearing participants and are not subject to tailored cash and assurance requirements as outlined in Appendix 5-4 and 6-5. AFS Licensees that are not APRA regulated or market participants are also subject to the requirements for reasonable assurance in respect of other relevant financial conditions on their licence which may be applicable based on the nature of their business. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

- (i) If the licensee is relying on satisfying the cash needs requirement by Option 1 or Option 2, then ASIC requires the following:
 - Reasonable assurance that the licensee had at all times a projection (covering at least the following 3 months) that purports to, and appears on its face to comply with, paragraph (a) of the definition of Option 1 or paragraph (a) of the definition of Option 2 (depending on which option the licensee purports to be complying with); and
 - Reasonable assurance that the licensee has correctly calculated the projections on the basis of the assumptions the licensee adopted for the projections described above; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance over the cash needs requirement using either Option 1 or Option 2 except for paragraphs (a), (c) and (e) of the definition of Option 1 or paragraphs (a) and (c) of the definition of Option 2; and
 - If the licensee relied on Option 1, limited assurance that the assumptions the licensee adopted for its projection were not unreasonable; or
 - If the licensee relied on Option 2, limited assurance that the basis for the selection of assumptions to meet the requirements for the projection adopted was not unreasonable; or
- (ii) If the licensee is relying on satisfying the cash needs requirement with a financial commitment by an Australian ADI or comparable foreign institution (Option 3), then ASIC requires:
 - Reasonable assurance that the licensee has obtained from an Australian ADI or a foreign deposit-taking institution approved in writing by ASIC as an eligible provider an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and

- Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable; or
- (iii) If the licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(iv) (Option 4), then ASIC requires:
- Reasonable assurance that the licensee is a subsidiary of an Australian ADI or a corporation approved by ASIC in writing; and
 - Reasonable assurance that a responsible officer of the licensee has documented that the officer has the reasonable expectation for at least the following three month period together with the reasons for forming the expectation, the contingencies for which the licensee considers it is reasonable to plan, the assumptions made concerning the contingencies and the basis for selecting those assumptions; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable; or
- (iv) If the licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(v) (Option 5), then ASIC requires:
- Reasonable assurance that the cash flows of the licensee and each of its related bodies corporate, other than a body regulated by APRA (“licensee group”), are managed on a consolidated basis and there is a body corporate within the licensee group of which all members of the licensee group are subsidiaries that is not a body regulated by APRA (“parent entity”); and
 - If the licensee is relying on Alternative A, reasonable assurance that the parent entity has provided an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee or to meet the licensee’s liabilities; or
 - If the licensee is relying on Alternative B:
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable.
 - In addition to the above, under subparagraph 13(c)(v)(D), a report by the parent entity’s auditor is given to ASIC with the licensee’s annual audit report under condition 28 of its licence, with respect to compliance by the parent entity with Option 1 or Option 2 as they would apply in accordance with subparagraph (c) reflecting the report that would be required from the auditor of a licensee, for that period purporting to comply with Option 1 or 2.

GS 003
(2015)

Guidance Statement GS 003

Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001

Issued by the Auditing and Assurance Standards Board

Draft

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Australian Government
Auditing and Assurance Standards Board

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Draft

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 003 *Assurance Requirements for Australian Financial Services Licensees under the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 003

Assurance Requirements for Australian Financial Services Licensees under the Corporations Act 2001

Application

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors conducting assurance engagements relating to Australian financial services (AFS) licensees reporting in accordance with the requirements of Chapter 7 of the *Corporations Act 2001* (the Corporations Act) and the associated *Corporations Regulations 2001* (Corporations Regulations).

Issuance Date

2. This GS is issued on 1 August 2015 by the AUASB and replaces *GS 003 Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*, issued in October 2007.

Introduction

3. In order to provide financial services in Australia, a person or entity is required by the Corporations Act to either hold an Australian Financial Services Licence (AFSL) or be an authorised representative of the AFSL holder. The Australian Securities and Investments Commission (ASIC) has responsibility for assessing and granting AFSLs on the basis of criteria set out in the Corporations Act¹. In addition, ASIC enforces financial and assurance requirements for AFS Licensees to meet their obligations under the Corporations Act.
4. The assurance requirements relating to AFS licensees may give rise to a number of special assurance considerations. Accordingly, this GS has been developed to identify, clarify and summarise the responsibilities which the auditor has with respect to conducting such assurance engagements, and to provide guidance to the auditor on additional factors which the auditor may consider when planning, conducting and reporting in relation to the assurance engagements of AFS licensees.
5. This GS provides guidance for each section of the assurance engagement as required by ASIC form FS 71 *Auditor's Report for AFS Licensee*, except for the reasonable assurance on the financial statements of the AFS licensee, for which mandatory requirements and explanatory guidance are provided in the Australian Auditing Standards (Auditing Standards). The auditor complies with all of the requirements in each of the Auditing Standards relevant to the financial statement audit in determining the audit procedures to be performed in conducting an audit in accordance with Auditing Standards.
6. This GS does not extend the responsibilities of the auditor beyond those which are imposed by Auditing Standards, Standards on Assurance Engagements (ASAEs), the requirements of the Corporations Act and the Corporations Regulations, applicable ASIC regulatory documents and class orders.
7. This GS is to be read in conjunction with, and is not a substitute for referring to the requirements and guidance contained in:
 - (a) The Australian Auditing Standards;
 - (b) Applicable Standards on Assurance Engagements including ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,

¹ Part 7.6 Division 4 of the Act.

ASAE 3100 *Compliance Engagements*, ASAE 3150 *Assurance Engagements on Controls*², ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*³.

- (c) Applicable ASIC regulatory documents in this area issued from time to time, such as *Regulatory Guide 166 Licensing: Financial requirements* (RG 166) reissued in July 2015 and *Pro Forma 209 Australian financial services licence conditions* (PF 209) reissued in July 2015; and
 - (d) Applicable ASIC Class orders in this area issued from time to time, such as ASIC Class Order CO 13/760 *Financial Requirements for responsible entities and operators of investor directed portfolio services*; CO 13/761 *Financial requirements for custodial or depository service providers*; and CO 12/752 *Financial requirements for retail OTC derivative issuers*.
8. This GS should not be used as a checklist of issues to be considered by the auditor. Furthermore, it is not intended that this GS limits or replaces the auditor's professional judgement and initiative or limits the application of AUASB Standards on such engagements. AUASB Standards contain the basic principles and essential procedures to be applied to assurance engagements. Assurance engagement programs are to be designed by the auditor to meet the requirements of the particular circumstances, giving careful consideration to the size and type of the AFS licensee and the adequacy of its internal control structure.

Legislative Background

- 9. The *Financial Services Reform Act 2001* (FSR Act) and the overall AFS licensing regulatory regime which is administered by ASIC, formally commenced on 11 March 2002. The full provisions of the FSR Act are operative for all AFS licensees under Chapter 7 of the Corporations Act.
- 10. The FSR Act amendments to the Corporations Act introduced a single licensing regime for financial advice and dealings in relation to financial products. The Corporations Act requires a person or an entity that operates a financial services business to hold the AFS licence or be authorised by the AFS licensee.

Definitions

- 11. For the purposes of this GS, the following items have the meanings attributed below:
 - (a) The term "auditor" is used throughout this GS and is taken to be a registered company auditor.
 - (b) References to Auditing Standards means, where relevant, reference to Australian Auditing Standards and Standards on Assurance Engagements (ASAEs).
 - (c) For the purposes of this GS an assurance engagement means an engagement in which an auditor aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
 - (i) Reasonable assurance engagement means an assurance engagement in which the auditor reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the auditor's conclusion. The auditor's conclusion is expressed in a form that conveys the auditor's

² ASAE 3150 is operative for assurance engagements commencing on or after 1 January 2016. Early adoption of ASAE 3150 is permitted only in conjunction with the adoption of revised ASAE 3000 prior to this date.

³ ASAE 3450 is applicable when providing assurance around the cash needs requirements for AFSLs as required within section 4 of FS 71.

opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- (ii) Limited assurance engagement means an assurance engagement in which the auditor reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the auditors attention to cause the auditor to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

Selected Regulatory Requirements for AFS Licensees

Corporations Act Requirements

12. The Corporations Act⁴ requires the AFS licensee to prepare and lodge a profit and loss statement and balance sheet with ASIC. In addition, AFS licensees other than limited AFS licensees⁵, are required⁶ to lodge an auditor's report in the prescribed form with ASIC for each financial year. ASIC requires the profit and loss statement (Statement of Profit and Loss and Other Comprehensive Income) and balance sheet (Statement of Financial Position) and notes to the Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position (the "financial statements") to be attached to the *Australian financial services licensees: profit and loss statement and balance sheet* (FS 70) and accompanying *Auditor's Report for AFS Licensee* (FS 71). Forms FS 70 and FS 71 can be found on the ASIC website www.asic.gov.au under "Download Forms".
13. Section 989D(1) of the Corporations Act and regulation 7.8.14A of the Corporations Regulations require the AFS licensee to lodge FS 70 and FS 71 with ASIC within the following timeframes:
 - (a) if not a body corporate – the day that is 2 months after the end of that financial year;
 - (b) if a body corporate that is a disclosing entity or a registered scheme – the day that is 3 months after the end of that financial year; or
 - (c) if a body corporate that is not a disclosing entity or registered scheme – the day that is 4 months after the end of that financial year.
14. Many AFS licensees lodge annual financial reports and the auditor's report under Chapter 2M of the Corporations Act (within 3 or 4 months of the financial year) with ASIC. The lodgement requirements under Chapter 2M and Part 7.8 of the Corporations Act are independent obligations and so it is necessary for AFS licensees to lodge financial statements separately under both provisions. The lodgement requirements under Chapter 2M of the Corporations Act apply to companies in general and are not affected by the FSR Act amendments. The FSR Act requires AFS licensees to lodge an FS 70 form (which includes the annual financial statements) and an FS 71 form (auditor's report) under Part 7.8 of the Corporations Act. Only the financial reports lodged under Chapter 2M are on public record while FS 70 and FS 71 contain information that is not required under Chapter 2M. If the AFS

⁴ Section 989B(1) and 989B(2) of Part 7.8 of the Corporations Act.

⁵ Limited licensees are defined in section 989B(4) of the Corporations Act.

⁶ Section 989B(3) of Part 7.8 of the Corporations Act.

licensee is not required to lodge annual financial reports under Chapter 2M, they are still required to lodge FS 70 and FS 71 with ASIC under Part 7.8 of the Corporations Act.

15. The AFS licensee can apply to ASIC for an extension of time to lodge FS 70 and FS 71 under Section 989D(3) of the Corporations Act.

Financial Requirements for AFS Licensees

Financial Requirements for APRA Regulated Entities, Market and Clearing Participants

16. The base level financial requirements (refer paragraph 19) and other financial requirement conditions, as set out in ASIC Pro Forma 209 (PF 209), do not apply but FS 70 and FS 71 are still required to be lodged with ASIC if the AFS licensee is either:
 - (a) a body regulated by the Australian Prudential Regulation Authority (APRA) as defined in Section 3(2) of the *Australian Prudential Regulation Authority Act 1998*; or
 - (b) a market participant (other than a principal trader, unless the principal trade is a registered market trader) as defined in section 761A of the *Corporations Act 2001* in relation to a licenced financial market operated by:
 - (i) ASX Limited (ASX market) that is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX Market) 2010* that impose financial requirements, taking into account any waiver by ASIC; or
 - (ii) Chi-X Australia Pty Limited (Chi-X market) and APX markets that are required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011* and *APX market 2013* that impose financial requirements, taking into account any waiver by ASIC; or
 - (iii) Australian Securities Exchange Limited (ASX 24 market), that restricts its financial services business to participating in the ASX 24 market and incidental business⁷; and is required to comply with, and complies with, the rules of the *ASIC Market Integrity Rules (ASX 24 Market) 2010* that impose financial requirements, taking into account any waiver by ASIC; or
 - (c) a clearing participant as defined in section 761A of the *Corporations Act 2001* in relation to a clearing and settlement facility (“CS facility”), where that facility is the licensed CS facility operated by:
 - (i) ASX Clear Pty Limited, and the AFS licensee is required to comply with, and complies with, the operating rules of ASX Clear Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear Pty Limited; or
 - (ii) ASX Clear (Futures) Pty Limited, and the AFS licensee restricts its financial services business to participating in that CS facility and incidental business; and is required to comply with, and complies with, the operating rules of ASX Clear (Futures) Pty Limited that impose financial requirements, taking into account any waiver of those requirements by ASX Clear (Futures) Pty Limited.
17. Where an AFS licensee is a body regulated by APRA, PF 209 condition 27 requires the audit opinion to state whether for the relevant period, on a reasonable assurance basis, the AFS licensee was a body regulated by APRA throughout the financial year or for any period of time that ASIC requests. ASIC includes this licence condition confirmation as an application

⁷ ASIC Regulatory Guide RG 166.186 explains that the relevant financial requirement in the ASIC market integrity rules may not be sufficient where an ASX 24 participant undertakes additional business.

statement made under section 1 of FS 71. The auditor satisfies themselves that the information included under the application statement is applicable.

18. Where an AFS licensee is a market participant or clearing participant, PF 209 condition 27 requires the audit opinion to state whether, during any part of the period for which the AFS licensee relied on being a market participant or clearing participant, on a reasonable assurance basis, the AFS licensee was a participant in the market conducted by:
- (a) ASX; or
 - (b) Chi-X market; or
 - (c) ASX 24 market, and restricted its financial services business to participating in the ASX 24 market and incidental business; or
 - (d) Licensed CS facility operated by ASX Clear Pty Limited; or
 - (e) Licenced CS facility operated by ASX Clear (Futures) Pty Limited, and restricted its financial services business to participating in the licensed CS facility and incidental business; or
 - (f) APX market.

ASIC includes this licence condition confirmation as an application statement made under section 1 of FS 71. The auditor satisfies themselves that the information included under the application statement is applicable.

19. All AFS licensees that are not exempt from the base level financial requirements are required to comply with these requirements under the Corporations Act. The base level financial requirements (summarised in Appendix 3) include:
- (a) the solvency and positive net assets requirements;
 - (b) the cash needs requirement (appendix 6), unless a tailored cash needs requirement applies (refer paragraph 21 and 22).
20. In addition, there are financial requirements specified in PF 209 and RG 166 for:
- (a) trustee companies providing traditional services (net tangible assets requirement, refer to PF 209 condition 19B and RG 166 Appendix 5);
 - (b) issuers of margin lending facilities (net tangible assets requirement, refer to PF 209 condition 19A and RG 166 Appendix 6);
 - (c) foreign exchange dealers (tier one capital requirement, refer to PF 209 condition 20 and RG 166 Appendix 7);
 - (d) holding client money or property (tiered surplus liquid funds requirement, refer to PF 209, condition 21 and RG 166 Section C);
 - (e) transacting with clients as principal (adjusted surplus liquid funds (ASLF) requirement, refer to PF 209, condition 22 and RG 166 Section D); and
 - (f) reporting triggers for AFS licensees who are not APRA regulated and are not retail over the counter (OTC) derivative issuers (refer to PF 209, conditions 23-26 and RG 166.83).

Financial Requirements for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers

21. In addition to the standard solvency and positive net assets requirements specified in paragraph 19, tailored financial and assurance requirements mentioned in paragraph 22 apply to the following types of AFS licensees:
- (a) A responsible entity authorised to operate a managed investment scheme and IDPS operators.
 - (b) Custodial or depository service providers.
 - (c) Retail OTC derivative issuers.
22. Tailored financial and assurance requirements that apply to AFS licensees mentioned in paragraph 21 include:
- (a) tailored cash needs requirement;
 - (b) tailored net tangible assets (NTA) requirement;
 - (c) tailored liquidity requirement; and
 - (d) tailored assurance requirement.

Refer Appendix 3 for more details and relevant regulatory references.

FS 71 Auditor Reporting Requirements

23. The FS 71 auditor's report requires:
- (a) Reasonable assurance on the financial statements (included within section 2 of FS 71).
 - (b) Reasonable assurance on the following matters as stated in Regulation 7.8.13(2) of the Corporations Regulations (included within section 2 of FS 71):
 - (i) the effectiveness of internal controls used by the AFS licensee to comply with:
 - Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the Corporations Act; and
 - Division 7 of Part 7.8 of the Corporations Act other than section 991A; and
 - (ii) whether each account required by sections 981B and 982B of the Corporations Act to be maintained by the AFS licensee has been operated and controlled in accordance with those sections; and
 - (iii) whether all necessary records, information and explanations were received from the AFS licensee
 - (c) A FS 70 statement relating to dealing with clients' money and other property of clients (section 3 of FS 71).
 - (d) Reasonable assurance that the AFS licensee complies with all the financial requirements under the licence other than the cash needs requirement, except for paragraph (e) of the definition of Option 1⁸ if the AFS licensee purports to comply with Option 1. A combination of Reasonable and Limited Assurance in relation to the relevant cash needs requirements (options 1-5⁹) as outlined in Appendix 6 is required if the AFS licensee, is not a body regulated by APRA or a market or clearing

⁸ As defined in ASIC PF 209 terms and definitions.

⁹ As defined in ASIC PF 209 terms and definitions.

- participant or a body subject to tailored cash and audit requirements (refer paragraph 19(b)) (included within sections 4 and 5 of FS 71).
- (e) Reasonable assurance that the AFS licensee complies with all the financial requirements under the licence other than the cash needs requirement, except for paragraph (e) of the definition of Option 1¹⁰ if the AFS licensee purports to comply with Option 1. A combination of Reasonable and Limited Assurance in relation to the relevant tailored cash and audit requirements as outlined in Appendix 4 and 5 is required if the AFS licensee is a responsible entity, an operator of IDPS, a custodial, a depository service provider or a retail OTC derivative issuer, that is subject to tailored cash and audit requirements (included within sections 4 and sections 6-8 of FS 71).
 - (f) A report that there are no matters that should have been reported to ASIC in accordance with section 990K of the Corporations Act during or since the financial year that have not previously been reported to ASIC, other than the matters detailed in FS 71 (section 11 of FS 71).
24. *ASIC Pro Forma 209 Australian Financial Services Licence Conditions* (PF 209), reissued in July 2015, sets out the standard licence conditions which subject to individual circumstances, will usually be applied to licences authorising a person to provide financial services under the AFS licence. It is important that the individual AFS licence conditions are examined carefully so that the appropriate reporting and auditing obligations are met.
25. In addition, ASIC Class Orders CO 12/752, CO 13/760, CO 13/761 set out the financial requirements applicable to specific categories of AFS licensees. It is important that these tailored requirements are examined carefully so that the appropriate financial and auditing obligations are met.
- Exemptions From Lodging Form FS 71*
- 26. The holder of a limited AFSL is not required to lodge FS 71 with ASIC. Regulation 7.8.12A and 7.8.13A of the Corporations Regulations exempts limited AFS licensees¹¹ from lodging an auditor's report with ASIC but requires the lodgement of a compliance certificate with ASIC. Under section 989B(1) and 989B(2) of the Corporations Act, limited AFS licensees are still required to prepare and lodge with ASIC, a profit and loss statement and balance sheet in the approved form FS 70 within the required timeframes.
 - 27. A foreign Authorised Deposit-taking Institution ("ADI") which holds the AFS licence that has relief under Class Order 03/823 *Relief from licensing, accounting and audit requirements for foreign authorised deposit-taking institutions*, is not required to lodge FS 71 with ASIC. It is exempt from the requirements of section 989B of the Corporations Act, where equivalent reports prepared for the overseas regulator of the foreign ADI are lodged with ASIC at least once in every calendar year and at intervals of not more than 15 months.
 - 28. Where the foreign ADI is also regulated by APRA and the AFS licence contains condition 27 in PF 209, then it is necessary for the foreign ADI to lodge an audit report (even if the foreign ADI is exempt under Class Order 03/823), that states whether for the relevant period, on a reasonable assurance basis, the AFS licensee was a body regulated by APRA at the end of the financial year or for any period of time that ASIC requests. This is because the APRA regulation confirmation requirement is in addition to Section 989B of the Corporations Act or Class Order 03/823. The format of this audit report does not need to be in accordance with FS 71. To avoid any processing problems, ASIC requires the audit report to be lodged and accompanied by a letter identifying the AFS licensee, licence number and financial year, and clearly stating the reasons why FS 71 has not been lodged. ASIC requires this letter to include reference to the class order and to the requirement for a report pursuant to the relevant licence condition.

¹⁰ As defined in ASIC PF 209 terms and definitions.

¹¹ Limited licensees are defined in section 989B(4) of the *Corporations Act 2001*.

29. Class Order 06/68 *Conditional relief for foreign licensees from financial reporting and record keeping obligations*, issued 3 February 2006 provides that a foreign company AFS Licence holder (other than a foreign ADI) can lodge accounts prepared for their home regulator with ASIC to meet their AFS Licence requirements. As a result the foreign company does not have to comply with regulations made for the purposes of sections 989B and 989C of the Corporations Act and hence is not required to lodge FS 70 or FS 71.
30. RG 166.19 also states that if the licensee is prudentially regulated overseas, they can apply to ASIC for relief from the financial requirements. ASIC will give this relief on a case-by-case basis if they are satisfied that the applicant is regulated in a way that is comparable to regulation by APRA for entities of that kind. If applicable, ASIC will consider the extent to which the relevant foreign prudential regulation is consistent with the Basel Committee guidelines for regulating deposit-taking institutions.

Considerations for the Auditor

Those Who May Audit the AFS Licensee

31. Section 990B(1) of the Corporations Act, requires the AFS licensee to ensure that at all times a registered company auditor who is not made ineligible through regulation 7.8.16(1)(a) of the Corporations Regulations is engaged to audit the AFS licensee's financial statements.

Agreeing on the Terms of the Engagement

32. The auditor complies with the requirements and guidance contained in ASAE 3000 when agreeing on the terms of the AFS licensee's assurance engagement in writing. Such terms may be outlined in an engagement letter¹², an example of which is provided in Appendix 1 to this GS. ASA 210 *Agreeing the Terms of Audit Engagements* contains information that the auditor may find helpful when agreeing on the terms of the engagement in this context.
33. The auditor may also use the engagement letter to clarify the respective roles of the AFS licensee and the auditor. In particular, it is important to highlight in the engagement letter the AFS licensee's obligation to establish and maintain effective internal control in relation to compliance with the requirements of the Corporations Act. It is the responsibility of the AFS licensee to comply with all the conditions under its AFSL, including all the financial requirements. As part of the acceptance of the assurance engagement, the auditor may consider obtaining acknowledgment of this obligation from those charged with governance of the AFS licensee when obtaining agreement on the terms of the engagement.

Planning

34. The auditor plans the engagement in accordance with ASAE 3000 and ASAE 3100. In planning the auditor performs preliminary engagement activities to establish and document the overall assurance engagement strategy that sets the scope, timing and direction of the engagement, that guides the development of the engagement.
35. ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* contains information that the auditor may find helpful when obtaining an understanding of the entity and its environment, including its internal controls, to provide a basis for the identification and assessment of the risks of material misstatement of ASIC form FS 70, compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Act whether due to fraud or error, and sufficient to design and perform further audit procedures which may also impact on the FS 71 audit report.

¹² Or other suitable form of audit contract.

Understanding the Entity and its Environment

36. In gaining an understanding of the entity and its environment, the auditor can draw on knowledge gained as part of the annual financial statement audit, however this understanding needs to be updated and broadened to meet the requirements of an engagement of AFS Licenses issued under the Corporations Act. ASAE 3100¹³ provides a list of matters to be considered by the auditor in understanding the entity and the compliance framework. It is likely the auditor will conduct the following procedures in obtaining that increased understanding and assessing risk: enquiries, analytical procedures, observation and inspection.
37. For a limited assurance engagement the auditor does not normally develop the depth of understanding of internal controls in relation to those areas subject only to limited assurance, as is required in a reasonable assurance engagement and so gaining an understanding may be limited to enquiries.

Identifying and Assessing Risks of Compliance Breach

38. The auditor of the AFS licensee may consider:
 - (a) Key responsibilities and risks identified;
 - (b) Processes and reliability of reporting systems established by the AFS licensee to implement the licence conditions; and
 - (c) Processes and adequacy of systems established by the AFS licensee to monitor adherence to the licence conditions and the Corporations Act requirements. The auditor may obtain from management a copy of the licence conditions, together with a written description of the procedures and structures which the AFS licensee has established to ensure compliance with those licence conditions.
39. In planning the assurance engagements and in making risk assessments, the auditor considers various matters including:
 - The licence conditions.
 - The nature and extent of any recent changes to the licence conditions and whether any detected breaches are deemed to be reportable in light of the revised licence conditions.
 - The nature of and extent of any changes to, the operations of the AFS licensee itself.
 - Changes to the requirements of relevant AUASB Standards.
 - Changes to the Corporations Act and Corporations Regulations.
 - Changes to relevant ASIC Regulatory Guides and Class Orders.
 - Reports and other documents submitted to the board of the AFS licensee regarding the operation of the licence and its compliance functions.
 - Previous auditor's reports, including the auditor's report on financial statements of the AFS licensee, and related management letters.
 - History of non-compliance with licence conditions.

¹³ See ASAE 3100, paragraphs 28-32 and 50.

Overall Responses to Assessed Risks of Material Misstatement in FS 70 and AFSL Compliance Breaches and Further Procedures

40. The auditor designs and performs further assurance procedures which are responsive to the assessed risks of material misstatement or material compliance breach. The auditor chooses a combination of assurance procedures, which may include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry.
41. ASAE 3000 clearly differentiates between the objectives of a limited versus a reasonable assurance engagement, and provides detail around the sufficiency of audit evidence on which to base conclusions. The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the auditor's determination of materiality, risk assessment and the results of the procedures conducted in response to assessed risks. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the auditor will perform will vary in nature from and will be less in extent than for a reasonable assurance engagement. In a limited assurance engagement procedures primarily involve enquiries and substantive analytical procedures and may not include tests of controls.
42. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000 and ASAE 3100 require additional procedures to be conducted if the auditor becomes aware of a matter which causes them to believe the subject matter may be materially misstated or there may be a reportable compliance breach. The auditor may conduct procedures more akin to a reasonable assurance engagement on this particular matter in order to satisfy themselves that either the subject matter is not materially misstated or non-compliant.
43. In a reasonable assurance engagement, procedures may include tests of controls as well tests of detail. When conducting a reasonable assurance engagement, if the auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of tests of details may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of tests of details will need to be increased or modified.

Materiality

44. The auditor considers materiality when determining the nature, timing and extent of assurance procedures. The objectives of setting materiality are to establish:
 - (a) A tolerable level of misstatement, deficiency, deviation or non-compliance of the subject matter in the entity's reports;
 - (b) The scope of assurance work to be performed; and
 - (c) A reasonable basis for evaluating identified misstatements, deficiency, deviation or non-compliance.

Materiality is addressed in the context of the AFS auditor's objectives, which are developed having regard to the reasonable expectations of issues that would likely influence the decisions of the user(s).

45. The auditor sets materiality in accordance with ASAE 3000 and ASAE 3100. ASA 320 *Materiality in Planning and Performing an Audit* contains information that the auditor may find helpful in this context. Information may be adapted by the auditor, as appropriate, to the task of judging adherence to the AFS licence and conformity with the relevant provisions in Part 7.8 of the Corporations Act. However, it is not possible to give a definitive view on what may constitute material, other than to suggest that the auditor exercises appropriate professional judgement having regard to the AFS licensee's obligations, together with the size,

complexity and nature of the AFS licensee's activities. The auditor develops separate materiality levels for each section of the engagement.

46. As identified in ASAE 3000 and ASAE 3100, when assessing materiality, the auditor considers qualitative factors as well as quantitative factors. The following are examples of qualitative factors that may be relevant:
- The specific requirements of the terms of the engagement.
 - The magnitude of instances of detected or suspected non-compliance and whether the misstatement affects compliance with a law or regulation.
 - When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.
 - The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
 - The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components.
 - Whether a misstatement is the result of an intentional act or is unintentional.
 - The interests of the intended users.
47. Materiality is determined in the same way whether the engagement is a reasonable or limited assurance engagement. The difference between reasonable and limited assurance engagements lies in the nature, timing and extent of evidence gathering procedures, which will differ in order to reduce the risk of a material misstatement or compliance breach remaining undetected to an acceptably low level, in the case of a reasonable assurance engagement, or to a limited level, in the case of a limited assurance engagement. The risk of material misstatements or compliance breaches in a limited assurance engagement is not reduced to the same extent as in a reasonable assurance engagement, because of the more limited nature, timing and extent of procedures conducted. In a limited assurance engagement, the auditor seeks to obtain a meaningful level of assurance, which is likely to enhance the intended users' confidence about the subject matter to a degree that is clearly more than inconsequential.
48. When determining materiality, the auditor considers ASIC Regulatory Guide RG 34 Auditor's obligations: *Reporting to ASIC* that contains information on the obligations of an auditor of an AFS Licensee in terms of breach reporting and ASIC Regulatory Guide RG 78 *Breach reporting by AFS licensees* that contains information on AFS Licensees breach reporting obligations.
49. Although there is a greater risk that misstatements, control deficiencies or instances of non-compliance may not be detected in a limited assurance engagement than an reasonable assurance engagement, the judgement as to what is material is made by reference to the subject matter on which the auditor is reporting and the needs of those relying on that information, as opposed to the level of assurance obtained.

Materiality and FS 71

50. An auditor may have concluded that it is appropriate to issue an unmodified opinion/conclusion but during the course of the engagement may have identified misstatements, deficiencies, deviations or compliance breaches that are not material, either individually, or taken as a whole, in the context of the engagement. ASIC requires that these identified non-material misstatements, deficiencies, deviations, compliance breaches or other exceptions/findings are reported to ASIC within section 9 of FS 71.
51. An auditor may have concluded that it is appropriate to issue an unmodified opinion/conclusion but may still have s990K(2) findings that are not considered by the auditor

to be material, that are reportable to ASIC under s990K(2). These reportable breaches that may or may not impact the auditor's opinion/conclusion are reported to ASIC in section 11 of FS 71(if not already previously reported).

Reporting Entity Concept

52. AFS licensees are required to lodge annual financial statements attached to FS 70 and FS 71. Where AFS licensees have not previously prepared financial statements or, in very rare situations, have previously prepared special purpose financial statements, then the auditor considers whether the AFS licensee is a reporting entity. Guidance as to what constitutes a reporting entity is contained in Statement of Accounting Concepts SAC 1 'Definition of the Reporting Entity' and Miscellaneous Professional Statement APS 1 'Conformity with Accounting Standards and UIG Consensus Views'. The decision as to whether an entity is a reporting entity needs to be made on a case by case basis in accordance with SAC 1 and APS 1. A requirement to prepare and/or lodge a financial report with ASIC pursuant to the Corporations Act does not, of itself, deem that entity to be a reporting entity.
53. In most circumstances the AFS licensee will be a reporting entity and hence lodge "general purpose" financial statements. AFS Licensees general purpose financial statements may be subject to the reporting requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards* and accordingly may be subject to reduced disclosure requirements.

Natural Persons

54. ASIC has issued class order CO 03/748 *Reporting requirements under s989B* on reporting requirements for AFS licensees who are natural persons. A natural person is defined as an individual, as opposed to a company, partnership or trustee. CO 03/748 states that where the licensee is a natural person, the licensee may exclude from the profit and loss statement, the revenue and expense that do not relate to any business of the licensee or all the revenue and expenses that do not relate to a financial services business of the licensee.
55. Alternatively, a natural person licensee can choose not to rely on CO 03/748 and instead include in a profit and loss statement all of their revenues and expenses, whether personal or business. The relief under CO 03/748 is confined to the preparation of the profit and loss statement. ASIC requires a natural person licensee to still prepare a balance sheet that discloses all of their assets and liabilities, including their personal assets and liabilities and the assets and liabilities of any other business.

Auditor Reporting Requirements

Reasonable Assurance on Certain Provisions in Part 7.8 of the Corporations Act (FS 71, section 2)

56. The FS 71 audit report requires reasonable assurance on the control environment to achieve compliance with the requirements of Divisions 2, 3, 4, 5 and 6 of Part 7.8 of the Corporations Act and Division 7 of Part 7.8 other than section 991A. These provisions include:
 - Dealing with clients' money.
 - Dealing with other property of clients.
 - Special provisions relating to insurance.
 - Obligations to report.
 - Financial records, statements and audit.

- Other rules about conduct (i.e.: giving priority to client orders, transmission of instructions through licensed markets, maintaining records of instruction, dealing with non-licensees and employees).

Assurance Considerations

57. In assessing the control environment, the auditor needs to determine which of the controls at the AFS licensee are necessary to achieve the control objectives relating to compliance with Divisions 2,3,4,4A,5 and 6 of Part 7.8 of the Corporations Act; and Division 7 of Part 7.8 of the Corporations Act (other than section 991A).
58. Where the auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve a control objective, if operating effectively, this may constitute a deficiency in relation to the suitability of design which would result in the controls being ineffective.
59. The auditor assesses the risk of the controls necessary to achieve the compliance requirements not operating effectively and uses professional judgement in determining the specific nature, timing and extent of procedures to be conducted.
60. Division 2 of Part 7.8 subdivision A and Corporations Regulations 7.8.01 – 7.8.05 relates to handling of client money including:
 - What constitutes client money?
 - Establishing an approved trust account.
 - Payment of client money into the trust account within one business day.
 - Circumstances where money can be withdrawn from the trust account.
 - Treatment of interest on client money.
61. The auditor establishes whether the AFS licensee holds client money and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls that are suitable to meet the relevant requirements; and then tests that those controls have operated effectively throughout the period. The auditor may select items for testing described below to obtain evidence regarding the operating effectiveness of the controls:
 - to establish whether client money received has been appropriately paid into the trust account.
 - to establish whether withdrawals from the trust account are in accordance with Corporations Regulation 7.8.02. If an AFS licensee does hold client money, the auditor considers whether they also have to comply with the Surplus Liquid Funds requirement.
 - of trust account reconciliations to establish whether client and AFS Licensee money is properly separated, including that non-client money is properly identified and separated on a timely basis in accordance with the Corporations Regulation 7.8.01.
62. Division 2 of Part 7.8 subdivision B and Corporations Regulations 7.8.06 relates to monies paid to an AFS licensee by way of a loan from a client, including:
 - What constitutes a loan from a client (excludes deposit and debenture payments)?
 - Establishing an approved trust account.
 - Payment of money lent into the trust account within 1 business day.

- That a statement is required to be given to the client setting out the terms and conditions of use of the loan and the purpose for which funds will be used.
 - The requirement to only use funds for the specified purpose outlined in the terms and conditions or subsequently agreed to in writing.
 - The auditor establishes whether the AFS licensee has received a loan from a client and determines whether a trust account has been appropriately established for the financial period. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
 - Selecting a sample of items for testing to establish whether money received has been appropriately paid into the trust account;
 - Testing to establish whether clients have been given the appropriate statements;
 - Selecting a sample of items for testing to establish whether money lent has been used for an agreed purpose.
63. Division 3 of Part 7.8 and Corporations Regulation 7.8.07 relates to the handling of property other than money given to the AFS licensee, including:
- What constitutes client property?
 - How the AFS licensee deposits or registers that client property.
 - Circumstances in which an AFS licensee can hold property as security.
 - The requirement to return secured property to the client within one business day of the client settling their obligation to the AFS licensee.
 - The requirement to provide clients with statements of property held as security every 3 months.
64. The auditor establishes whether the AFS licensee handles client property. The auditor performs procedures to determine whether the AFS licensee has designed controls suitable to meet the requirements of Division 3 of Part 7.8 and Corporations Regulations 7.8.07; and then designs procedures to test that those controls have operated effectively throughout the period. The auditor may perform procedures described below to obtain sufficient appropriate audit evidence regarding the operating effectiveness of the controls:
- Selecting a sample of items for testing to establish whether property received has been appropriately deposited or registered;
 - Establishing whether property is received as security;
 - Selecting a sample of items for testing to establish whether the AFS licensee has complied with the requirements relating to property received as security.
65. Division 4 of Part 7.8 and Corporations Regulations 7.8.08 relates to the receipt of monies by AFS licensees who are insurance brokers and agents of general and life insurance contracts but not the actual insurer. Auditors consider the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls to meet the relevant requirements and that these controls are operating effectively throughout the period.

66. Division 5 of Part 7.8 makes provision for the regulations to impose reporting requirements in relation to money to which Division 2 or 3 applies, or to an AFS licensee dealing in derivatives. Currently, there are no regulations relating to this Division.
67. Division 6 of Part 7.8 relates to financial records, statements and audit. The auditor considers the applicable legislation and design appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.
68. Division 7 of Part 7.8 (other than section 991A) relates to other rules about conduct in licensed markets. The auditor considers firstly whether the legislation is applicable to the AFS licensee. If the legislation is applicable, the auditor then designs appropriate tests to determine whether the AFS licensee has designed controls suitable to meet the relevant requirements and then designs procedures to test that these controls are operating effectively throughout the period.

FS 70 Statement relating to Dealing with Clients' Money and Dealing with Other Property of Clients (FS 71, section 3)

69. The FS 71 audit report contains a FS 70 statement on paragraphs 7 (whether the AFS licensee received client monies), 8 (whether the AFS licensee received client property) and 9 (whether the AFS licensee received a loan from a client) of FS 70. The auditor considers the AFS licensee's statements on FS 70 and through performing evidence gathering¹⁴ procedures including, knowledge of the client, corroborative enquiry and representations from management, obtains sufficient appropriate audit evidence to conclude whether the statements in FS 70 are appropriate.

Financial Requirements (FS 71, sections 4-8)

70. The FS 71 audit report requires a combination of reasonable assurance opinions and limited assurance conclusions on the AFS Licensee's compliance with prescribed financial requirements and other relevant legislation. The auditor considers the relevant financial requirements by referring to the licence conditions and obtains sufficient appropriate audit evidence to reach a reasonable assurance opinion or limited assurance conclusion.
71. Audit evidence may be gathered through enquiry and observation, tests of control, substantive testing and representations from management. The amount of evidence from each source is a matter for the auditors' professional judgement. It is unlikely that sufficient assurance may be obtained from only performing one type of testing. The type and extent of procedures will be based on the complexity of the AFSL, nature of business and initial risk assessment. When auditing compliance with the AFS Licensee's financial requirements throughout the period, it is important for the auditor to:
 - (a) understand how the AFS licensee derives their calculations, so the auditor can conclude as to whether this method is in accordance with the requirements;
 - (b) ascertain whether all the calculations prepared during the period demonstrate a compliant position; and
 - (c) select a sample number of calculations to test for accuracy based on underlying financial information.

¹⁴ The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and contains information and guidance that the auditor may find helpful in determining the evidence applicable to compliance engagements.

Cash Needs Requirement – Assurance Considerations

72. ASIC requires reasonable assurance and limited assurance on the entity's compliance with the AFS licensee's financial requirements for the entire year, not just year-end. Hence, evidence-gathering procedures will need to include an understanding of the processes adopted by the AFS licensee to ensure compliance throughout the year, such as formal policies, monthly calculations, use of standard calculation templates and monitoring by the AFS licensee's board or appropriate delegate. The auditor considers testing to be performed on a sample basis depending on the assessment of effectiveness of controls.
73. If the AFS licensee has adopted Option 1 for the cash needs requirement or is subject to a tailored cash needs requirement, the auditor considers compliance throughout the period with the cash holding requirement in Part (e) of the Option 1 definition, or with the cash holding requirement per the applicable ASIC Class Order (CO 12/752 or CO 13/760 or CO 13/761) as appropriate.
74. The auditor considers obtaining the cash flow projections throughout the relevant period and determines whether the cash flow projections are either:
 - (a) a projection of the AFS licensee's cash flows over at least the next 3 months based on the AFS licensee's reasonable estimate of what is likely to happen over this term (Option 1); or
 - (b) a projection of the AFS licensee's cash flows over at least the next 3 months based on the AFS licensee's estimate of what would happen if the AFS licensee's ability to meet its liabilities over the projected term (including any liabilities the AFS licensee might incur during the term of the projection) is adversely affected by commercial contingencies taking into account all contingencies that are sufficiently likely for a reasonable AFS licensee to plan how they might manage them (Option 2); or
 - (c) a projection of the AFS licensee's cash flows over at least the next 12 months based on the AFS licensee's reasonable estimate over what is likely to happen over this term; and is approved at least quarterly by those charged with governance (tailored cash needs requirement).

The auditor considers establishing how often and when the cash flow projection is updated to ensure it continuously covers at least the next 3 months (12 months – tailored cash needs requirement).

75. The auditor considers obtaining the AFS licensee's documented assumptions used to prepare the cash flow projections and checking whether the assumptions have been correctly applied in preparing the projections. This may include ensuring that the documented assumptions on the timing of cash flows have been correctly applied to budgeted revenues, expenses and capital expenditure.
76. Based on the cash flow projections already obtained, the auditor considers whether there is evidence that the cash flow assumptions are not appropriately documented or that the projections do not demonstrate that the AFS licensee had access as needed to sufficient financial resources at all times in compliance with paragraphs (b) and (d) of either the Option 1 or Option 2 definitions or paragraphs 3(c) or 3(e)(i) of the tailored cash needs requirements of ASIC Class Orders CO 12/752, 13/760 or 13/761 throughout the period. The auditor considers whether the documentation is sufficient to enable the auditor to ascertain whether the assumptions have been correctly applied in preparing the projections. This may involve reviewing the documentation of budget assumptions if the cash flow documentation does not stand alone. The auditor may consider the use of specialists in this area.
77. Based on reviewing the assumptions in line with the auditor's knowledge of the business and on enquiries of management, the auditor considers whether there is evidence that the assumptions used are unreasonable. This may involve obtaining an understanding of the AFS

licensee's budgeting process if budgets are used to prepare the cash flow projections, or considering the historical accuracy of the assumptions in predicting actual cash flows.

78. If the licensee relies on Option 2, then based on reviewing the basis of selecting the assumptions in line with the auditor's knowledge of the business and on enquiries of management, the auditor considers determining whether there is evidence that the basis for selecting the assumptions is unreasonable.
79. Under Option 3, where the AFS Licensee does not prepare a cash flow projection, but instead relies on a financial commitment from an Australian ADI, or comparable foreign institution, (under licence condition 13(c)(iii)) the audit report is required to contain a statement about whether the licensee has obtained an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors.
80. Where the AFS licensee is a subsidiary of an Australian ADI or ASIC-approved prudentially regulated body that does not prepare cash flow projections, on the basis of its expectation concerning the adequacy of resources (under licence condition 13(c)(iv)), the audit report is required to contain a statement about whether the auditor has any reason to believe that the basis for selecting the assumptions documented by the AFS licensee in forming the expectation is unreasonable.
81. Where the AFS licensee uses group cash flow projections to meet the cash needs requirement, on the basis of alternative A (under licence condition 13(c)(v)), the auditor is required to include an audit opinion on whether the parent entity has provided an enforceable and unqualified commitment to pay on demand an unlimited amount to the AFS licensee, or to meet the AFS licensee's liabilities (including any additional liabilities that the AFS licensee might incur while the commitment applies).
82. In addition, when relying on the Group cash flow projections under licence condition 13(c)(v), the licensee auditor should be mindful of the requirement for the parent entity auditor to provide a separate opinion modelled on the Option 1 or 2 audit requirement and that this audit report is required to be submitted at the same time as the FS 71 opinion (under licence condition 13(c)(v)(D)).
83. Where the AFS licensee relies on alternative B (under licence condition 13(d)(v)), the audit report is required to contain a statement about whether the auditor has any reason to believe that the documented basis for selecting the assumptions, on which the AFS licensee's expectation concerning the adequacy of the resources required under alternative B, is unreasonable.

Limited Assurance on Risk Management Systems (FS 71, sections 4-8)

84. FS 71 requires limited assurance on risk management systems to ensure ongoing compliance with financial requirements. Section 912A(1)(h) requires the AFS licensee to have adequate risk management systems. To satisfy this obligation, ASIC expects that the risk management systems will specifically deal with the risk that the AFS licensee's financial resources will not be adequate to ensure that they are able to carry on their business in compliance with their licence obligations.

Assurance Considerations

85. ASAE 3150 requires the auditor to perform procedures to determine whether the AFS licensee has designed controls that are suitable to meet the requirements of section 912A(1)(h) and then designs procedures to test that these controls have operated effectively throughout the period. Having regard to the risk of inadequate financial resources, these procedures may include:
 - Obtaining an understanding of the risk management systems (RMS) and the process to identify material risks;

- Consideration as to whether a formal documented risk management system exists, although the formality and extent of the processes required will depend on the size, nature and complexity of the business; and
- Obtaining periodic calculations of compliance with financial requirements, and consideration of processes that may exist to identify and address matters that may arise between these periodic calculations that have the potential to cause non-compliance with the financial requirements, although the extent of these processes will depend on how much of a buffer the AFS licensee has above the requirements and the sensitivity of these buffers to fluctuations in the performance and financial position of the AFS licensee.

There is no expectation that the auditor expresses assurance conclusions on the adequacy of the specific controls of the risk management system.

86. As part of the limited assurance procedures, the auditor may seek the following types of information and documentation:

- Copies of the RMS documents that set out the AFS licensee's RMS during the period;
- Documentation that identifies and describes the systems, policies, procedures and structures that are in place to manage identified risks and representations that such systems, policies, procedures and structures have been complied with;
- Minutes of the meetings of those responsible for monitoring compliance with aspects of the RMS;
- Internal audit reports (if applicable);
- Certifications if made by the AFS licensee and relevant supporting documentation to substantiate compliance with the RMS during the reporting period; and
- Other supporting evidence to confirm that the controls identified in the RMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each AFS licensee.

Statement on Section 990K(2) Matters (FS 71, section 11)

87. FS 71 requires a statement about any matter referred to in section 990K(2) of the Corporations Act and covers the year under audit and up until the date the FS 71 auditor's report is signed. This section 990K(2) statement only deals with those matters that have not already been reported by the auditor as required under section 990K(1). Given the 7 day reporting time frame under section 990K, it is likely that for most matters, the auditor would not wait until they lodge FS 71 to report matters to ASIC. The section 990K(2) statement is not part of the opinion section in FS 71.
88. If a section 990K matter has been reported by the auditor to ASIC, this does not require re-reporting as a specific section 990K matter in section 11 of FS 71. However, such matters may still need to be included in section 2-8 of FS 71 as the basis for a modified opinion/conclusion or in section 9 of FS 71 as a non-material matter.
89. Section 990K(2) requires a report to be given in relation to any matter that, in the opinion of the auditor:
- (a) has adversely affected, is adversely affecting or may adversely affect the ability of the AFS licensee to meet the AFS licensee's obligations as an AFS licensee; or
 - (b) constitutes or may constitute a contravention of:

- (i) a provision of Subdivision A or B of Division 2 (or a provision of regulations made for the purposes of such a provision); or
 - (ii) a provision of Division 3 (or a provision of regulations made for the purposes of such a provision); or
 - (iii) a provision of Subdivision B or C of this Division (or a provision of regulations made for the purposes of such a provision); or
 - (iv) a condition of the AFS licensee's licence; or
- (c) constitutes an attempt to unduly influence, coerce, manipulate or mislead the auditor in the conduct of the audit.

Assurance Considerations

90. If the auditor becomes aware of the above relevant matters (a) - (c) during the course of the audit of the financial statements, performing work on FS 71 or undertaking other audit work (e.g. Managed investments compliance plan audits), they have an obligation to report on them. If the auditor becomes aware of a section 990K(2) matter that is outside the Corporations Act sections under audit, then the auditor is required to report on these section 990K(2) matters but has no obligation to look for matters outside the sections under audit.
91. Apart from the requirement to report section 990K(2) breaches in FS 71, section 990K(1) requires auditors to report such breaches to ASIC (and the AFS Licensee and any relevant market or clearing authority e.g. ASX for stockbrokers) within 7 days of becoming aware of the matter. Auditors consider this obligation at all times of the year, but particularly during the planning, interim and final stages of their audits. The AFS licensee is required to report any such breaches as soon as practicable and within 10 business days of becoming aware of the matter as required by section 912D(1B). The auditor is expected to report breaches even if the AFS Licensee has already reported same.
92. There is a potential conflict between the auditor's obligation to report *any* breaches and the AFS licensee's obligation to only report *significant* breaches to ASIC. An opinion or conclusion is not provided on the 990K statement in the FS 71. The auditor separately considers whether a matter reported in the statement also impacts the audit opinion within the FS 71 report.
93. As the section 990K(2) statement specifically covers both the financial year and the period between the end of the financial year and the date of signing the FS 71 auditor's report (unlike the other reporting requirements in FS 71), the auditor is obliged to formally consider the existence of relevant matters up to the date of signing the report. To determine the existence of such matters, the auditor considers matters including:
- Reading minutes of the meetings of those charged with governance, and compliance, audit and executive committees, held after the reporting date, and enquiring about matters discussed at meetings for which minutes are not yet available.
 - Obtaining copies of all correspondence with ASIC and any other relevant regulators up to the date of signing.
 - Enquiring of management as to whether any subsequent events have occurred which might represent matters referred to under section 990K(2).

Overall Assurance Reporting Considerations

94. Due to the nature of audit testing and other inherent limitations of an audit, together with the inherent limitations of the AFS licensee and its related licence conditions, there is a possibility that a properly planned and executed audit will not detect all deficiencies in the AFS

licensee's licence conditions. Accordingly, the audit opinion under section 989B(3) of the Corporations Act is expressed in terms of reasonable or limited assurance (as appropriate) and cannot constitute a guarantee that the AFS licensee is completely free from any deficiency, or that all compliance breaches have been detected.

95. There are also practical limitations in requiring an auditor to perform a continuous examination of the AFS licensee, and form an opinion that the entity has complied at all times with the Corporations Act during the period covered by the AFS licensee audit report. However, the auditor performs tests periodically throughout the financial year to obtain evidence and obtain reasonable assurance that the measures complied with the written descriptions and were adequate throughout the period under examination.
96. Prior to issuing the FS 71 audit report, the auditor considers obtaining a written representation from the directors of the AFS licensee which contains their assertions that the AFS licensee has complied with the licence conditions during the financial year and up to the date the FS 71 audit report is signed, and that the AFS licensee continues to meet the requirements of Part 7.8 of the Corporations Act. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, ASAE 3000. An example management representation letter is contained in Appendix 2.
97. The FS 71 audit report is an ASIC prescribed form and can be found on the ASIC web site www.asic.gov.au under "Download Forms". ASIC requires form FS 71 to be lodged in the prescribed form and that no modifications or deletions are made, unless consented to by ASIC.
98. It is important to check the ASIC website to ensure that the latest version of FS 71 is adopted.

Communications with Those Charged with Governance

99. Under ASAE 3000 and ASAE 3100, the auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. In addition, Auditing Standard ASA 260 *Communication with Those Charged With Governance* (ASA 260), ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (ASA 265) contains information that the auditor may find useful when communicating with Those Charged with Governance. Examples of such matters may include:
 - The general approach and overall scope of the engagement, or any additional requirements;
 - Fraud or information that indicates that fraud may exist;
 - Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance;
 - Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement;
 - Compliance Breaches; and
 - Expected modifications to the auditor's report.
100. The auditor informs those charged with governance of the AFS licensee of those uncorrected misstatements/compliance breaches, other than clearly trivial amounts, aggregated by the auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

Conformity with International Pronouncements

101. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this GS.

Draft

Appendix 1

(Ref: Para.33)

APPENDIX 2

EXAMPLE AUDIT ENGAGEMENT LETTER

The following example audit engagement letter is for use as a guide only, in conjunction with the considerations described in GS 003, and will need to be varied according to individual requirements and circumstances.

To [Title of Those Charged with Governance]

Section 989B(3) of the *Corporations Act 2001* (the Corporations Act) requires an Australian Financial Services Licence (AFSL) holder (AFS Licensee) to lodge with ASIC the auditor's report on the AFS licensee together with a profit and loss statement and balance sheet (being the audited financial statements).

The Corporations Act, *Corporations Regulations 2001*, ASIC regulatory documents and ASIC Class Orders determine the scope of the auditor's report. Reference to the auditor's report is also made in the conditions of the AFSL. Currently the required format of the auditor's report is set out in ASIC form FS 71.

This letter sets out in general terms, our understanding of the terms and objectives of our engagement as auditors of the AFSL of [name of company] (the Licensee) pursuant to section 989B(3) of the Corporations Act. This engagement is a separate engagement from our audit [and half year review] appointment[s] under the Corporations Act.

Scope

Our reporting will be in a form consistent with the requirements of ASIC form FS 71 which requires:

- Reasonable assurance that the profit and loss statement (Statement of Financial Performance) and balance sheet (Statement of Financial Position) and the notes thereto (financial statements) give a true and fair view of the financial performance and financial position of the AFS licensee for the year ended [date] and comply with all Australian Accounting Standards (covered by a separate engagement letter);
- Reasonable assurance on compliance with specified provisions of Part 7.8 of the Corporations Act (being Divisions 2 to 7, except for section 991A) (including relating to dealing with client money, property and insurance);
- Reasonable assurance on compliance with sections 981B and 982B of the Corporations Act (relating to the control and operation of trust accounts);
- Reasonable assurance that all necessary records, information and explanations for the purpose of the audit report were received;
- A combination of reasonable and limited assurance on compliance with AFSL conditions relating to financial requirements as prescribed by ASIC in regulations and class orders;
- A statement over paragraphs 7, 8 and 9 of ASIC form 70 in relation to receipt of client money, property or loans to which Part 7.8 of the Corporations Act applies; and
- A statement that during the performance of our duties as auditors of the AFS licensee, we have not become aware of any matters referred to in section 990K(2) of the Corporations Act during or since the financial year, that we have not previously reported to ASIC.

The responsibilities of the auditor

ASIC form FS 71 includes a combination of reasonable assurance opinions and limited assurance conclusions on the AFS licensee's compliance with AFSL conditions relating to financial requirements as prescribed by ASIC.

Where we are required to obtain reasonable assurance in relation to ASIC form FS 71, our audit procedures will be conducted in accordance with AUASB Standards, and accordingly will include such tests and procedures as we consider necessary in the circumstances. This will involve an examination of the internal controls used by the AFS licensee to comply with the financial requirements of the AFSL, the specified provisions of Part 7.8 and the control and operation of each account maintained for section 981B or section 982B of the Corporations Act.

Where we are required to obtain limited assurance in relation to ASIC form FS 71, our review procedures are conducted in accordance with Standards on Assurance Engagements. A review consists primarily of inspection of evidence and observation of, and enquiry about, the operation of the procedures and internal control of the financial risk management system and comparison and other such analytical review procedures we consider necessary. A review of this nature does not provide all the evidence that would be required in an audit and provides less assurance than an audit. We will not be performing an audit of the matters subject to review and we will not express an audit opinion on them.

Where we are required to obtain limited assurance in relation to projections, our review procedures will be conducted in accordance with Standards on Assurance Engagements and will be restricted to an examination on a test basis throughout the relevant period to determine whether the AFS licensee had projections in place and may include:

- a review of projections identified on a test basis to ensure that they were materially in accordance with the requirements of the Corporations Act; and
- testing that projections identified on a test basis were mathematically accurate based on the underlying assumptions as documented by the AFS licensee and that these assumptions are not unreasonable.

Our procedures are substantially less in scope than an audit conducted in accordance with AUASB Standards and obtain limited assurance.

Where we are required to obtain limited assurance in relation to the projections required under the cash needs requirements conditions of the AFSL, our review procedures will be conducted in accordance with AUASB Standards on Assurance Engagements in order to state whether anything has come to our attention, which causes us to believe that the AFS licensee did not satisfy the cash needs requirements. Our procedures are substantially less in scope than an audit conducted in accordance with AUASB Standards and obtain limited assurance.

Inherent Limitations

Internal Controls

Because of the inherent limitations of any internal control structure, it is possible that fraud, errors or non-compliance with laws and regulations may occur and not be detected. We will not audit the overall internal control structure (including procedures that do not relate to the financial requirements) and no opinion will be expressed as to its effectiveness. An audit is not designed to detect all weaknesses in control procedures or all instances of non-compliance with part 7.8 of the Corporations Act as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the AFS licensee. Also, projections of any evaluation of the control procedures to future periods are subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Projections

The projections prepared by [Those Charged with Governance] in accordance with the cash needs requirements conditions of the AFSL are based upon the achievement of certain economic, operating and developmental assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of projections. Actual results may vary materially from those projections and the variation may be materially positive or negative.

Auditor's obligation to report matters to ASIC

In accordance with section 990K of the Corporations Act, if during the course of or in relation to our assurance engagement we become aware of a matter referred to in section 990K(2) of the Corporations Act we are required to lodge a written report to ASIC within 7 days.

Responsibility of the AFS licensee

The [Title of Those Charged with Governance] of the AFS Licensee are responsible for:

- Establishing and maintaining effective internal control procedures relevant to the preparation and fair presentation of ASIC form FS 70 that is free from material misstatement, including control procedures in relation to compliance with the requirements of Part 7.8 of the Corporations Act, the conditions of the AFSL and the provisions of the financial services laws. These duties are imposed on the AFS licensee by the Corporations Act and the AFSL.
- The preparation and presentation of ASIC Form FS 70, and the information it contains.
- Complying with the requirements of the Corporations Act and the conditions of the AFSL.

Fees

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate]

Other

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

As part of our assurance process, we will request from [management, and where appropriate, Those Charged with Governance], written confirmation concerning representations made to us in connection with the assurance process.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of [Name of the AFS Licensee] as required by Section 989(B) of the Corporations Act.

Yours faithfully,

(signed)

.....
Name and Title

Date

Acknowledged on behalf of [entity] by (signed)

.....

Name and Title

Date

Draft

Appendix 2

(Ref: Para.96)

APPENDIX 2

EXAMPLE MANAGEMENT REPRESENTATION LETTER

[Client Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your engagement to report in accordance with section 989B(3) of the *Corporations Act 2001* (the Corporations Act) regarding the Australian Financial Services Licence (“AFSL”) of [Name of the AFS Licensee] (Licence No: [xx]) for the financial year ended [balance date].

We acknowledge our responsibility for the preparation of form FS 70 in accordance with Section 989B of the Corporations Act, the *Corporations Regulations 2001* (the Regulations) and the conditions of the Licensee’s AFSL, effective [date of AFS Licence] and that this responsibility includes designing, implementing and maintaining accounting records and effective internal control to ensure compliance with the conditions of the Licensee’s AFSL and the requirements of Part 7.8 of the Corporations Act.

We confirm, to the best of our knowledge and belief, the following representations:

General

1. We have made available to you, and your representatives:
 - (a) access to all information of which we are aware that is relevant to the preparation of Australian Securities and Investments Commission (ASIC) form FS 70 such as records, documentation and other matters;
 - (b) additional information that you have requested from us for the purpose of the engagement;
 - (c) unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence; and
 - (d) minutes of all meetings of (*shareholders, directors, and committees of directors*).
2. There:
 - (a) has been no knowledge of any fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
 - (b) has been no knowledge of any fraud, error or non-compliance with laws and regulations that could have a material effect on the either the form FS 70 for [Name of the AFS Licensee], or ongoing compliance with the AFSL; and
 - (c) has been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting or compliance practices that could have a material effect on form FS 70 of [Name of the AFS Licensee] or our ongoing ability to comply with financial services laws or conditions of the AFSL.

3. We have disclosed to you:

- (a) all significant facts relating to any frauds or suspected frauds which are known to us that may have affected compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act;
- (b) the results of our assessment of the risk of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act as a result of fraud;
- (c) all information in relation to allegations of fraud, or suspected fraud, affecting ASIC form FS 70 or compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act communicated by employees, former employees or others;
- (d) known actual or possible non-compliance with laws or regulations, that could have a material effect on ASIC form FS 70 in the event of non-compliance; and
- (e) all known actual or possible litigation and claims whose effects should be considered when preparing ASIC form FS 70 and compliance with the conditions of the Licensee's AFSL and the requirement of Part 7.8 of the Corporations Act.

4. We acknowledge our responsibility for the design and implementation of internal controls to detect fraud and error.

5. We acknowledge our responsibility for the preparation and presentation of a profit and loss statement, balance sheet and notes thereto in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the Corporations Act and the appropriate disclosures of all information required by statute.

ASIC Form FS 70

- 6. We confirm that all transactions have been properly recorded and reflected in the accounting records underlying form FS 70 and that we have in place adequate systems of accounting procedures and internal control to ensure that all transactions are recorded and that the recorded transactions are valid, accurate, authorised, classified and promptly recorded so as to facilitate the preparation of reliable financial information referred to in form FS 70.
- 7. We confirm that form FS 70, to which form FS 71 relates, has been prepared so as to be consistent with [Name AFS Licensee]'s audited financial report and it has been properly drawn up so as to provide the information required by directions issued by ASIC under the Corporations Act and the Corporations Regulations.
- 8. We confirm that all material and/or contentious issues which management or the directors have discussed in the course of preparing form FS 70 and any non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act, and the resolution of such issues have been discussed with you.
- 9. We confirm that the statements made in respect of paragraphs 7, 8 and 9 on FS 70 are correct.

Part 7.8 of the Corporations Act 2001

- 10. There has been no matter during or since the end of the year/period ended [selected date] which has adversely affected, is adversely affecting or may adversely affect our ability to meet our obligations as a AFS licensee or constitutes a contravention of :
 - (a) a provision of Subdivision A or B of Division 2 of Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or

- (b) a provision of Division 3 of Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or
 - (c) a provision of Subdivision B or C of Division 6 of the Part 7.8 of the Corporations Act (or a provision of regulations made for the purposes of such a provision); or
 - (d) a condition of the licence.
11. We have designed and operated controls effectively to ensure that we comply with Divisions 2, 3, 4, 4A, 5, 6 and 7 of Part 7.8 of the Corporations Act (other than section 991A).
 12. We have operated and controlled each account required by sections 981B and 982B of the Corporations Act in accordance with those sections.

Financial Requirements

13. We have complied with all the financial requirements under the Licence throughout the year/period.
14. We acknowledge that we were a body regulated by the Australian Prudential Regulation Authority (“APRA”) / participant in the market conducted by the ASX Limited (“ASX”) or Chi-X / participant in the market conducted by the Australian Securities Exchange Limited (“ASX 24”) that restricted its financial services business to participating in the market and incidental business / participant in the licensed clearing and settlement facility operated by ASX Clear Pty Limited / participant in the licensed clearing and settlement facility operated by ASX Clear (Futures) Pty Limited and restricted its financial services business to participating in the licensed clearing and settlement facility and incidental business for the year ended [balance date]. **[delete if AFS licensee is not APRA regulated or a market or clearing participant]**
15. We have maintained adequate risk management systems throughout the year/period to manage the risk of having insufficient financial resources to comply with the conditions of the Licence. **[delete if APRA-regulated]**
16. We acknowledge our responsibility for the preparation of cash flow projections and the assumptions underpinning those projections, and confirm that the assumptions adopted for the projections were reasonable/the basis for the selection of assumptions to meet the requirements for the projections adopted was reasonable. **[delete as applicable depending on whether the licensee is complying with Option 1 or Option 2]**
17. We confirm that we have had our cash flow approved by [those charged with governance]; and have updated our projection of cash flows in line with the requirements of ASIC regulatory guide RG 166. **[delete if AFS licensee is not subject to tailored cash requirements]**
18. We confirm that we have access as needed to enough financial resources to meet our liabilities over the next 3/12 months, including any additional liabilities that we project we will incur during that term/we might incur during that term. **[delete as applicable depending on whether the AFS licensee is complying with tailored cash requirements, Option 1 or Option 2]** In relation to forecast financial information provided to you for the purpose of your report (in particular the cash needs requirements prescribed by Option 1 or Option 2 or the tailored cash need requirements as referred to in your AFSL and ASIC form FS 71), it is confirmed, to the best of our knowledge and belief, that:
 - (a) the financial position and operating results for the forecast period reflect the best judgement of our directors and management based on expected future market conditions and the likely course of action to be taken;
 - (b) the accounting principles used in the preparation of the forecast data are consistent with those used in our historical financial statements and are the same as those

- expected to be used in the eventual preparation of the historical financial statements come the end of the forecast period;
- (c) there are no contingent liabilities, unusual contractual obligations or substantial commitments which would materially affect the financial forecast except as otherwise specifically disclosed to you;
 - (d) the key assumptions have been consistently applied during the forecast period; and
 - (e) no factors that may be relevant have been omitted.

Uncorrected Misstatements and Non Compliance Identified

- 19. We acknowledge that you have advised management of identified uncorrected misstatements, instances of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act; and identified weaknesses in the design of the internal controls that you became aware of as a result of your audit and review procedures.
- 20. We believe the effects of uncorrected misstatements, instances of non-compliance with the conditions of the Licensee's AFSL and the requirements of Part 7.8 of the Corporations Act; and weaknesses in the design of internal controls summarised [in Appendix [X]/below] pertaining to the year ended [balance date] (including the effects of prior year issues impacting the current year) are both individually, and in aggregate, immaterial or adequately reported ASIC.

Subsequent Events

- 21. No events have occurred subsequent to [balance date] that would require adjustment to form FS 70 at that date.

Additional Matters

- 22. We have reported any significant breaches to ASIC as required under:
 - (a) section 912D of the Corporations Act; and
 - (b) section 601FC(1)(l) of the Corporations Act **[delete if licensee is not a responsible entity of a managed investment scheme]**
- and have provided you with details of all breaches, reported and unreported, of the Licence or the Corporations Act that occurred during or since the end of the year/period.
- 23. We understand that your engagement has resulted in a combination of reasonable assurance opinions and limited assurance conclusions. Where you were required to obtain reasonable assurance we understand that your audit was conducted in accordance with AUASB Standards and was designed primarily for the purpose of expressing an opinion in relation to ASIC form FS 71 and that your audit procedures were limited to those you considered necessary in the circumstances. In addition, we understand that the limited assurance conclusions were also conducted in accordance with AUASB Standards and involved review procedures. These procedures result in you obtaining less assurance than that provided by an audit. For these conclusions you have not performed an audit and accordingly do not express an opinion on them.
- 24. [Include any additional matters relevant to the engagement]

Yours faithfully

Name of signing officer and title

Appendix 3

(Ref: Para.19, 22)

APPENDIX 3

SUMMARY OF FINANCIAL REQUIREMENTS APPLICABLE TO CERTAIN AFS LICENSEES

This table summarises and provides the regulatory references for certain financial and assurance requirements applicable to all non-exempt AFS Licensees, Responsible Entities, Operators of IDPS and Retail OTC derivative issuers. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

	Base Level requirements applicable to all non-exempt AFS Licensees	Responsible Entities and operators of IDPSs	Retail OTC derivative issuers	Custodial or depository services
Regulatory References	<ul style="list-style-type: none"> RG 166 Section B ASIC PF 209 paragraph 13 	<ul style="list-style-type: none"> RG 166 Appendix 2 and 3 ASIC Class Order CO 13/760 	<ul style="list-style-type: none"> RG 166 Appendix 8 ASIC Class Order CO 12/752 	<ul style="list-style-type: none"> RG 166 Appendix 4 ASIC Class Order CO 13/761
Solvency and positive net assets	<ul style="list-style-type: none"> Ability to pay debts when due and payable Total assets exceeding total liabilities (unless using adjusted assets and liabilities [RG 166 Section E] [RG 166.32 – RG 166.34] [ASIC PF 209 para 13] 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets 	<ul style="list-style-type: none"> Base level solvency and positive net assets
Cash needs	<ul style="list-style-type: none"> Not applicable where a tailored cash needs requirement applies Option 1 [RG 166.40- RG 166.44] Option 2 [RG 166.45- RG 166.47] Option 3 [RG 166.50] 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.204- RG 166.205]; [RG 166.237 – RG 166.238] At least 12 month cash flow projection Documentation of calculations and assumptions 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.314 – RG 166.318] At least 12 month rolling cash flow projection Documentation of calculations and assumptions Board approval of the cash 	<ul style="list-style-type: none"> Tailored cash need requirement [RG 166.263- RG 166.264] At least 12 month cash flow projection Documentation of calculations and assumptions

	<ul style="list-style-type: none"> • Option 4 [RG 166.51] • Option 5 [RG 166.52] • [ASIC PF 209 para 13] 	<ul style="list-style-type: none"> • Board approval of the cash flow projections at least quarterly 	flow projections	<ul style="list-style-type: none"> • Cash flow projections approved at least quarterly
NTA	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • [RG 166.209 – RG 166.235]; [RG 166.242-RG 166.261] • If requirements related to custody are satisfied or licensee is an IDPS operator, the greater of: <ul style="list-style-type: none"> ▪ \$150,000 or ▪ 0.5% of average value of scheme and IDPS property up to \$5 million or ▪ 10% of average RE and IDPS revenue • If requirements related to custody are not satisfied or licensee performs custodial functions as an IDPS operator, the greater of: <ul style="list-style-type: none"> ▪ \$10 million or ▪ 10% of average RE and IDPS revenue 	<ul style="list-style-type: none"> • RG 166.322 – RG 166.332 • Greater of: <ul style="list-style-type: none"> ▪ \$1,000,000 or ▪ 10% of average revenue 	<ul style="list-style-type: none"> • [RG 166.269 – RG 166.289] • Other than incidental¹⁵ providers (satisfy requirements for custodian) the greater of: <ul style="list-style-type: none"> ▪ \$10million or ▪ 10% of average revenue • For incidental providers: <ul style="list-style-type: none"> ▪ If all assets are held by another complying custodian or eligible custodian – no NTA requirement; otherwise the greater of: <ul style="list-style-type: none"> ▪ \$150,000 or ▪ 10% of average revenue
Liquidity	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • [RG 166.212; RG 166.244] • Greater of \$150,000 or 50% of NTA in cash and cash equivalent; and 	<ul style="list-style-type: none"> • [RG 166.323] • 50% of NTA in cash or cash equivalents; and • 50% of NTA in liquid assets. 	<ul style="list-style-type: none"> • [RG 166.270] • At least 50% of NTA in cash and cash equivalent; and

¹⁵ Incidental provider is defined in RG 166.173.

		<ul style="list-style-type: none">• At least 100% of NTA in liquid assets		<ul style="list-style-type: none">• At least 100% of NTA in liquid assets
Audit	<ul style="list-style-type: none">• RA: Financial requirement;• RA/LA: Cash needs requirement• LA: s912A(1)(h)• [RG 166.62–RG 166.68]• [PF 209 para 28(d)]	<ul style="list-style-type: none">• Combination RA and LA• Tailored audit requirements [RG 166.206 – RG 166.208]; [RG 166.239 – RG 166.241]	<ul style="list-style-type: none">• Combination RA and LA• Tailored audit requirements [RG 166.319 – RG 166.321]	<ul style="list-style-type: none">• Combination RA and LA• Tailored audit requirements [RG 166.265 – RG 166.67]

RA: Reasonable assurance

LA: Limited assurance

Draft

Appendix 4

(Ref: Para.22(a))

APPENDIX 4

TAILORED CASH REQUIREMENTS

This appendix *summarises* the tailored cash requirements needs for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the financial requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The financial requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The financial requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

To meet the cash needs requirement, the licensee is required to:

- (i) prepare a projection of the licensee's cash flows over at least the next 12 months (for retail OTC derivative issuers this is required to be done quarterly in March, June, September and December) based on the licensee's reasonable estimate of what is likely to happen over this period (retail OTC derivative issuers – revenue and expenses); and
- (ii) have the projection approved in writing at least quarterly by the licensee's directors (unless the licensee is a retail OTC derivative issuer or custodial or depository service provider who may then have the projection approved by partners or trustees of the licensee if the licensee is a partnership or a trust, or a person if the licensee is a natural person) as satisfying the requirements of paragraph (i); and
- (iii) document the calculations and assumptions used in preparing the projection, and describe in writing why the assumptions are appropriate; and
- (iv) update the projection of the licensee's cash flows if:
 - the projection ceases to cover at least the next 12 months (not a requirement for retail OTC derivative issuers); or
 - there is reason to suspect that an updated projection would differ materially from the current projection (not a requirement for retail OTC derivative issuers) or show that the licensee was not meeting the requirements in subparagraphs (v) below; and
- (v) document whether (retail OTC derivative issuers require a certification in writing by the persons referred to in (ii) above), based on the projection of the licensee's cash flows, the licensee:
 - will have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under the licensee's liquidity requirement; and
- (vi) make the projections available to ASIC on request (requirement for retail OTC derivative issuers only).

Appendix 5

(Ref: Para.22(d))

APPENDIX 5

TAILORED ASSURANCE REQUIREMENTS

This appendix summarises the tailored audit requirements applicable for Responsible Entities, Operators of Investor Directed Portfolio Services (IDPS), Custodial or Depository Service Providers and retail OTC Derivative Issuers. A responsible entity authorised to operate a managed investment scheme and IDPS operators are required to comply with the audit requirements as set out in RG 166 Appendix 2 and 3, and ASIC Class Order CO 13/760. The audit requirements for custodial or depository service providers are set out in RG 166 Appendix 4 and ASIC Class Order CO 13/761. The audit requirements for retail OTC derivative issuers are set out in RG 166 Appendix 8 and ASIC Class Order CO 12/752. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

- (i) If the licensee is a responsible entity, operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Reasonable assurance that the licensee:

- ◊ complied with the requirement to have the projection approved in writing at least quarterly by the directors/partners/person and that the licensee has met the NTA and liquidity requirement of the licence, and any other financial requirements in conditions on its licence; and
- ◊ had, at all times, a projection over at least the next 12 months that purports to, and on appears on its face to be based on the licensee's reasonable estimate of what is likely to happen over this period; and
- ◊ correctly calculated the projection on the basis of the assumptions the licensee used for the projection; and

- (ii) If the licensee is a responsible entity or operator of an IDPS, a custodial or depository service provider then ASIC requires the following:

Limited assurance that the licensee:

- ◊ had adequate systems for managing the risk of having insufficient financial resources to meet the NTA requirement, cash/cash equivalent, and liquid asset holding requirement, and any other financial requirements in conditions on its licence; and
- ◊ did not fail to document the calculations and assumptions used in preparing the projection and describe in writing why the assumptions are appropriate; and
- ◊ will have access when needed to enough financial resources to meet their liabilities over the projected term of at least the next 12 months; and
- ◊ will hold at all times during the period to which the projection relates, in cash/cash equivalents and liquid assets, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents; and
- ◊ adopted assumptions for its projection that were not unreasonable; or

- ◊ (if the licensee complies with the NTA requirement for incidental providers) satisfied the definition of incidental provider.
- (iii) If the licensee is a retail OTC derivative issuer then ASIC requires the following:
 - Reasonable assurance that the licensee:
 - ◊ complied with the NTA and liquidity requirements of the licence and other financial requirements in conditions on its licence; and
 - ◊ had at all times a projection that purports to, and appears on its face to, comply with the requirement to prepare in each March, June, September and December, a projection of the licensee's cash flows over at least the next 12 months based on the licensee's reasonable estimate of revenues and expenses over this period; and
 - ◊ correctly calculated the projection on the basis of the assumptions the licensee adopted for the projection; and
 - Limited assurance that the licensee:
 - ◊ satisfied s912A(1)(h) of the *Corporations Act 2001* for managing the risk of having insufficient financial resources to meet the NTA and liquidity requirement of the licensee and any other financial requirements in conditions on its licence; and
 - ◊ adopted assumptions for its projection that were not inappropriate; and
 - ◊ had their projections approved in writing by their directors/partners/person as being based on the licensee's reasonable estimate of revenues and expenses over the period; and
 - ◊ documented the calculations and assumptions used in preparing the projection, and described in writing why the assumptions are appropriate; and
 - ◊ updates the cash flow projections if there is reason to suspect that an updated projection would show that the licensee :
 - will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; and
 - will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents.

Appendix 6

(Ref: Para.19(b))

APPENDIX 6

CASH AND ASSURANCE REQUIREMENTS

This appendix summarises the cash and assurance requirements, that are detailed in ASIC Pro Forma 209, for licensees that are not regulated by APRA or are not market or clearing participants and are not subject to tailored cash and assurance requirements as outlined in Appendix 4 and 5. AFS Licensees that are not APRA regulated or market participants are also subject to the requirements for reasonable assurance in respect of other relevant financial conditions on their licence which may be applicable based on the nature of their business. This appendix may not be a complete summary of all legislative requirements. Practitioners are advised to refer to the current legislation and ASIC Regulatory Guides in place.

- (i) If the licensee is relying on satisfying the cash needs requirement by Option 1 or Option 2, then ASIC requires the following:
 - Reasonable assurance that the licensee had at all times a projection (covering at least the following 3 months) that purports to, and appears on its face to comply with, paragraph (a) of the definition of Option 1 or paragraph (a) of the definition of Option 2 (depending on which option the licensee purports to be complying with); and
 - Reasonable assurance that the licensee has correctly calculated the projections on the basis of the assumptions the licensee adopted for the projections described above; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance over the cash needs requirement using either Option 1 or Option 2 except for paragraphs (a), (c) and (e) of the definition of Option 1 or paragraphs (a) and (c) of the definition of Option 2; and
 - If the licensee relied on Option 1, limited assurance that the assumptions the licensee adopted for its projection were not unreasonable; or
 - If the licensee relied on Option 2, limited assurance that the basis for the selection of assumptions to meet the requirements for the projection adopted was not unreasonable; or
- (ii) If the licensee is relying on satisfying the cash needs requirement with a financial commitment by an Australian ADI or comparable foreign institution (Option 3), then ASIC requires:
 - Reasonable assurance that the licensee has obtained from an Australian ADI or a foreign deposit-taking institution approved in writing by ASIC as an eligible provider an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and

- Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable; or
- (iii) If the licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(iv) (Option 4), then ASIC requires:
- Reasonable assurance that the licensee is a subsidiary of an Australian ADI or a corporation approved by ASIC in writing; and
 - Reasonable assurance that a responsible officer of the licensee has documented that the officer has the reasonable expectation for at least the following three month period together with the reasons for forming the expectation, the contingencies for which the licensee considers it is reasonable to plan, the assumptions made concerning the contingencies and the basis for selecting those assumptions; and
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable; or
- (iv) If the licensee is relying on satisfying the cash needs requirement by relying on licence condition 13(c)(v) (Option 5), then ASIC requires:
- Reasonable assurance that the cash flows of the licensee and each of its related bodies corporate, other than a body regulated by APRA (“licensee group”), are managed on a consolidated basis and there is a body corporate within the licensee group of which all members of the licensee group are subsidiaries that is not a body regulated by APRA (“parent entity”); and
 - If the licensee is relying on Alternative A, reasonable assurance that the parent entity has provided an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee or to meet the licensee’s liabilities; or
 - If the licensee is relying on Alternative B:
 - Limited assurance that the licensee is managing the risk of having insufficient financial resources to comply with the conditions of the licence; and
 - Limited assurance that the basis for the selection of the assumptions adopted was not unreasonable.
 - In addition to the above, under subparagraph 13(c)(v)(D), a report by the parent entity’s auditor is given to ASIC with the licensee’s annual audit report under condition 28 of its licence, with respect to compliance by the parent entity with Option 1 or Option 2 as they would apply in accordance with subparagraph (c) reflecting the report that would be required from the auditor of a licensee, for that period purporting to comply with Option 1 or 2.

Form FS71

Corporations Act 2001

s912AA, s912AB, s912AC, s989B

Auditor's Report for AFS Licensee

Refer to Australian Securities and Investments Commission (ASIC) Regulatory Guide 166 and the attached Guide before completing this form.

AFS licensee details (the 'licensee')

AFS licensee name

AFS licence number

Lodgement details

Who should ASIC contact if there is a query about this form?

ASIC registered agent number (if applicable)

Firm/organisation

Contact name/position description

Telephone number (during business hours)

Email address (optional)

Postal address

Suburb/City

State/Territory

Postcode

Auditor details

ASIC registered company auditor number (*for individual auditor or authorised audit company*)

Family name

Given name

or

Authorised audit company name

ACN/ABN

or

Firm name (if applicable)

ABN

Office, unit, level

Street number and street name

Suburb/City

State/Territory

Postcode

Country (if not Australia)

Financial year

This form is for the financial year / / to / / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

1 Application Statements

Limited Licensee

The licensee was a limited licensee for the following part of the financial year:

/ / to / / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

Retail OTC derivative issuer,
Responsible entity, IDPS
Operators, Custodial or
Depository Services

During the financial year the licensee was:

(a) a retail OTC derivative issuer

from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

(b) authorised to operate registered schemes as a responsible entity

from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

(c) authorised to operate an Investor Directed Portfolio Service (IDPS) as an IDPS operator

from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

(d) authorised to provide custodial or depository services

from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

Market Participant or Clearing Participant

During the financial year, the licensee relied on being a market participant or a clearing participant

from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

and, during this period the licensee was a participant in the:

(a) ASX market; or

(b) Chi-X market; or

(c) ASX 24 market, and restricted its financial services business to participating in the ASX 24 market and incidental business; or

(d) licensed CS facility operated by ASX Clear Pty Limited; or

(e) licensed CS facility operated by ASX Clear (Futures) Pty Limited, and restricted its financial services business to participating in the licensed CS facility and incidental business; or

(f) APX market

Parts 4 to 8 of this form are **not** applicable to any part of the financial year during which the licensee relied on being a market participant or clearing participant, and was a participant in a market or facility listed above.

APRA Regulated bodies

During the financial year, the licensee relied on being, and was, an Australian Prudential Regulation Authority (APRA)

regulated body from / / to / /
[D] [D] / [M] [M] / [Y] [Y] to [D] [D] / [M] [M] / [Y] [Y]

For financial years ending on or after 1 July 2015 **Part 7** (with Part 4) is applicable for any part of the financial year where the licensee was an APRA regulated body and both a responsible entity of a registered managed investment scheme (MIS) and a registrable superannuation entity licensee (RSE licensee). Otherwise, **Parts 4 to 8** of this form are **not** applicable to any part of the financial year during which the licensee was an APRA regulated body.

2 Independent Auditor's Report - Subsection 989B(3) of the Act

Report on the Licensee's
Financial Report/Statements

To ASIC and the licensee

The licensee has prepared a financial report under Chapter 2M of the *Corporations Act 2001*

and we attach a copy of our auditor's report on the financial report in an annexure marked (indicate identifying letter or symbol used to mark annexure). The financial report is that which the ASIC Form FS70 signed by the licensee on/..... / (insert the date Part 1 of the FS70 was signed) and initialled by us for identification relates.

The licensee has prepared a financial report (but not under Chapter 2M) on the basis that it is a reporting entity and we have audited the financial report of the licensee which comprises the statement of financial position as at the end of the financial year, the statement of profit or loss and other comprehensive income (or the statement of profit or loss and separate statement of comprehensive income), statement of changes in equity and statement of cash flows for the financial year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The financial report is that which the ASIC Form FS70 signed by the licensee on/..... / (insert the date Part 1 of the FS70 was signed) and initialled by us for identification relates.

The licensee has prepared financial statements (but not under Chapter 2M) on the basis that it is a not a reporting entity and we have audited the financial statements of the licensee, which comprises the profit and loss statement for the financial year, the balance sheet as at the end of the financial year, and the notes thereto. The financial statements are those that the ASIC Form FS70 signed by the licensee on/..... / (insert the date Part 1 of the FS70 was signed) and initialled by us for identification relates.

The Licensee's Responsibility for the Financial Report/Statements (refer annexure for Chapter 2M Financial Reports)

The licensee is responsible for preparing the financial report/statements (as appropriate) to be true and fair in accordance with the *Corporations Act 2001* and for such internal control as the licensee determines is necessary to enable the preparation of the financial report/statements that gives a true and fair view, and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility (refer annexure for Chapter 2M Financial Report)

Our responsibility is to express an opinion on the financial report/statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report/statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report/statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report/statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the licensee's preparation of the financial report/statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the licensee, as well as evaluating the overall presentation of the financial report/statements.

Unless we have included a disclaimer of opinion below, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Where we have included a Disclaimer of Opinion below, then because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Modified opinion (refer annexure for Chapter 2M Financial Report)

We have included a

qualified opinion adverse opinion disclaimer of opinion

and the basis for this modified opinion

below

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

2 Continued... Independent Auditor's Report - Subsection 989B(3) of the Act

Opinion (refer annexure for Chapter 2M Financial Reports)

Unless a modified opinion has been included above or in an annexure, in our opinion the financial report/statements of the licensee for the financial year are in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial performance and financial position of the licensee; and
 - (b) if the licensee:
 - (i) is a reporting entity, that the financial report complies with Australian Accounting Standards.
 - (ii) is not a reporting entity, that the financial statements are in accordance with all the recognition and measurement requirements of the Australian Accounting Standards, and in accordance with the disclosure requirements of the Australian Accounting Standards that apply to non-reporting entities,
- except that where the licensee is a natural person if noted in the financial report/statements, the licensee may exclude from the financial report/statements and notes thereto the revenue and expenses that do not relate to any business of the licensee or all the revenue and expenses that do not relate to a financial services business of the licensee.

Basis of Accounting (refer annexure for Chapter 2M Financial Reports)

Without modifying our opinion, we draw attention to the notes to the financial report/statements, which describe the basis of accounting. The financial report/statements have been prepared for the purpose of fulfilling the licensee's reporting responsibilities under the *Corporations Act 2001*. As a result, unless the financial report/statements are included in a general purpose financial report, they may not be suitable for another purpose.

Report on Internal Controls and Required Accounts

We have audited, in relation to the financial year (excluding any period during which the licensee was a limited licensee pursuant to subsection 989B(4) of the *Corporations Act 2001*) (a) the operating effectiveness of internal controls used by the licensee to comply with (i) Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the *Corporations Act 2001*; and (ii) Division 7 of Part 7.8 other than section 991A (the 'specified internal controls'), and (b) the operation and control of each account required by sections 981B and 982B to be maintained by the licensee (the required accounts).

Licensee's Responsibility for the Specified Internal Controls and Required Accounts

To the extent of the licensee's obligations under the *Corporations Act 2001*, the licensee is responsible for establishing and maintaining effective internal controls in relation to the licensee's compliance with the requirements of the Act, and for operating and controlling accounts required by the Act in accordance with the Act. The Licensee is responsible for identifying the control objectives, identifying the risks that threaten achievement of the control objectives, designing controls to mitigate those risks, so that those risks will not prevent achievement of the identified control objectives, and operating effectively the controls as designed throughout the period.

Auditor's Responsibility

Our responsibility is to express an opinion based on our audit on the operating effectiveness of the specified internal controls and on the licensee's operation and control of the required accounts. We conducted our engagement in accordance with the Auditing and Assurance Standards Board's Standards. Those Standards require that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, throughout the period the specified internal controls operated effectively and the required accounts were operated and controlled as required.

An assurance engagement to report on the operating effectiveness of controls involves performing procedures to obtain evidence about the operating effectiveness of controls throughout the period. The procedures selected depend on our judgement, including the assessment of the risks that the controls did not operate effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to achieve the control objectives identified. An assurance engagement of this type also includes evaluating the suitability of the control objectives. Unless we have included a Disclaimer of Opinion below, we believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Inherent Limitations

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

An assurance engagement on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the outcome of the evaluation of controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

2 Continued... Indepent Auditor's Report - Subsection 989B(3) of the Act

Report on Internal Controls and Required Accounts continued

Modified opinion

We have included a

qualified opinion adverse opinion disclaimer of opinion

and the basis for this modified opinion

below

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

Opinion

Unless a modified opinion has been included above or in an annexure, in our opinion, in all material respects, in relation to the financial year (excluding any period during which the licensee was a limited licensee):

- (a) the internal controls used by the licensee to comply with Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the *Corporations Act 2001*; and Division 7 of Part 7.8 other than section 991A have been effective; and
- (b) each account required by sections 981B and 982B of the *Corporations Act 2001* to be maintained by the licensee has been operated and controlled in accordance with those sections.

Report on Records, Information and Explanations

Pursuant to regulation 7.8.13 of the *Corporations Regulations 2001*, our responsibility is to provide an opinion on whether we received all necessary records, information and explanations from the licensee.

Modified opinion

We have included a

qualified opinion adverse opinion disclaimer of opinion

and the basis for this modified opinion

below

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

Opinion

Unless a modified opinion has been included above or in an annexure, in our opinion, in all material respects, in relation to our auditor's report required under subsection 989B(3) of the *Corporations Act 2001* for the financial year, we received all necessary records, information and explanations from the licensee.

3 FS70 Statement

Unless matters are described

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

we have not identified anything that causes us to believe paragraphs 4(a), 4(b) and 4(c) in the licensee's Form FS70 for the financial year are not true.

4 Scope - Audit and review of financial requirements

The following applies to the opinions expressed in parts 5 to 8 in this form.

We have audited and reviewed (as applicable) aspects of the licensee's financial requirements as specified in the *Corporations Act 2001* and the licensee's licence conditions. The financial requirements of Australian financial service licensees and their audit obligations are further explained in ASIC's Regulatory Guide *RG 166 Licensing: Financial requirements*.

The Licensee's Responsibility

The licensee is responsible for their compliance with the *Corporations Act 2001*, and for such internal controls that they determine are necessary for their compliance.

Auditor's Responsibility

We conducted our audit and review in accordance with the applicable standards issued by the Auditing and Australian Standards Board (AUASB). Those standards require that we comply with relevant ethical requirements relating to audit and review engagements and plan and perform our audit to obtain reasonable assurance, and our review to obtain limited assurance about the licensee's compliance with the financial requirements in order to express our opinions.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our review procedures consisted primarily of inspection of evidence and observation of, and enquiry about, the operation of the procedures and internal controls of the financial risk management system and comparison and other such analytical review procedures we considered necessary.

Limitations

Because of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. We have not audited the overall internal control structure of the licensee and no opinion is expressed as to its effectiveness. An audit is not designed to detect all weaknesses in control procedures or all instances of non-compliance as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the licensee. Any projection of the evaluation of internal control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Where we have expressed an opinion in relation to projections our procedures have been restricted to an examination on a test basis throughout the relevant period to determine that the licensee had a projection in place, a review of projections identified on a test basis to ensure that they were materially in accordance with the requirements of the Act, as modified, to prepare projection of the licensee's cash flows as applicable, and testing that projections identified on a test basis were mathematically accurate based on the underlying assumptions as documented by the licensee. The underlying assumptions for projections are subject to significant uncertainties and contingencies often outside the control of the licensee. If events do not occur as assumed, actual results and cash maintained by the licensee may vary significantly from the projection. Accordingly, we do not confirm or guarantee the achievement of the projections, as future events, by their nature, are not capable of independent substantiation.

Accordingly, we have included such tests and procedures that we considered necessary in the circumstances. Unless we have included a Disclaimer of Opinion below, we believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit and review opinions.

5 Licence conditions - Basic level financial requirements

Part 5 of this form does not apply to the licensee for the financial year.

Part 5 of this form does not apply to any part of the financial year where the licensee was:

- (a) a limited licensee as defined in subsection 989B(4) of the Act.
- (b) a retail OTC derivative issuer (refer part 6).
- (c) authorised to operate registered schemes as a responsible entity (refer part 7)
- (d) authorised to operate an Investor Directed Portfolio Service (IDPS) as an IDPS operator (refer part 7) ; or
- (e) authorised to provide custodial or depository services (refer part 8)

The following auditor's opinions are expressed where the licensee's cash needs option and dates are included. Where no dates are included no opinion is expressed.

License conditions

The opinions in part 5 are based on the conditions in ASIC Pro Forma 209 [PF 209]. The opinions expressed below are to be read as though the PF 209 condition references 13 to 26 were replaced with to , which are the paragraph references to the identical conditions in the licensee's actual licence.

Where the licensee's actual licence conditions differ from the relevant PF209 conditions, and where practical to do so, written amendments or notations have been made on this form to reflect these differences as necessary, otherwise we have attached the opinions required by the licensee's licensee conditions in an annexure marked (indicate identifying letter or symbol used to mark annexure)

Cash needs requirements option

The licensee used the cash needs requirements 'Option [number 1 to 5 is inserted as appropriate]' as defined in the conditions of the licensee's licence (its licence).

'Option 1' or 'Option 2'

Where the licensee used cash needs requirements 'Option 1' or 'Option 2'

in relation to the period / / to / / (D M Y D M Y)

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise

(a) in our opinion, based on our audit, in all material respects, the licensee:

- (i) complied with all the financial requirements under conditions 13 to 26 (inclusive) of its licence other than paragraph 13(c) of its licence, except for paragraph (e) of the definition of "Option 1" under its licence if the licensee purports to comply with "Option 1"; and
 - (ii) had at all times a projection (covering at least the following 3 months) that purported to, and appeared on its face to comply with, paragraph (a) of the definition of either "Option 1" or "Option 2" (as applicable) under its licence; and;
 - (iii) correctly calculated the projections on the basis of the assumptions the licensee adopted for the projections; and
- (b) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, following an examination of the documents the licensee relied on in complying with "Option 1" or "Option 2" as defined under its licence, in all material respects:
- (i) the licensee did not satisfy the requirements of paragraph 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to comply with the conditions of its licence; and
 - (ii) the licensee failed to comply with the cash needs requirement using either "Option 1" or "Option 2" as defined under its licence (as applicable) except for paragraphs (a), (c) and (e) of the definition of "Option 1" or paragraphs (a and (c) of the definition of "Option 2"; and
 - (iii) if the licensee relied on "Option 1" as defined under its licence, the assumptions the licensee adopted for its projection were unreasonable; or
 - (iv) if the licensee relied on "Option 2" as defined under its licence, the basis for the selection of assumptions to meet the requirements for the projection adopted was unreasonable.

5 Continued... Licence conditions - Basic level financial requirements

'Option 3'

Where the licensee used cash needs requirements 'Option 3'

in relation to the period / / to / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

(a) in our opinion, based on our audit, in all material respects, the licensee:

- (i) complied with all the financial requirements under conditions 13 to 26 (inclusive) of its licence other than paragraph 13(c); and
- (ii) has obtained from an Australian ADI or a foreign deposit-taking institution approved in writing by ASIC as an eligible provider an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee, or the amount for which the licensee is liable to its creditors at the time of demand to the licensee's creditors or a trustee for the licensee's creditors.

'Option 4'

Where the licensee used cash needs requirements 'Option 4'

in relation to the period / / to / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

- (a) in our opinion, based on our audit, in all material respects the licensee complied with all the financial requirements under conditions 13 to 26 (inclusive) of its licence other than paragraph 13(c); and
- (b) in our opinion, based on our audit, in all material respects, following our examination of the documents prepared for subparagraph 13(c)(iv)(C), the licensee complied with subparagraph 13(c)(iv)(A) and subparagraph 13(c)(iv)(C) of its licence; and
- (c) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, following our examination of the documents prepared for subparagraph 13(c)(iv)(C) of its licence, in all material respects:
 - (i) the licensee did not satisfy the requirements of paragraph 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to comply with the conditions in its licence; and
 - (ii) the basis for the selection of the assumptions adopted was unreasonable.

5 Continued... Licence conditions - Basic level financial requirements

'Option 5'

Where the licensee used cash needs requirements 'Option 5'

The licensee purports to comply with Alternative A in subparagraph 13(c)(v)(E) for the following period:

/ / to / / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

The licensee relied on Alternative B in subparagraph 13(c)(v)(E) for the following period:

/ / to / / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

in relation to the period / / to / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

(a) in our opinion, based on our audit, in all material respects the licensee:

- (i) complied with all the financial requirements under conditions 13 to 26 (inclusive) of its licence other than paragraph 13(c); and
- (ii) complied with subparagraph 13(c)(v)(A) and (B) of its licence; and
- (iii) for any period when the licensee purports to comply with Alternative A in subparagraph 13(c)(v)(E), the parent entity has provided an enforceable and unqualified commitment to pay on demand from time to time an unlimited amount to the licensee or to meet the licensee's liabilities; and

(b) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, for any period when the licensee relied on Alternative B in subparagraph 13(c)(v)(E), following our examination of the documents prepared for Alternative B, in all material respects:

- (i) the licensee did not satisfy the requirements of paragraph 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to comply with the conditions in its licence; and
- (ii) the basis for the selection of the assumptions adopted was unreasonable.

6 Licence conditions - Retail OTC Derivative Issue [CO 12/752]

Part 6 of this form does **not** apply to the licensee for the financial year.

Part 6 of this form applies only to the period during the financial year, if any, where section 912AB of the *Corporations Act 2001* applied to the licensee (i.e. where the licensee was a retail OTC derivative issuer) – refer also to [CO 12/752].

In relation to the period / / to / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

(a) in our opinion, based on our audit, in all material respects the licensee:

- (i) complied with subsections 912AB(4) and (5) and other financial requirements in conditions on its licence; and
- (ii) had at all times a projection that purports to, and appears on its face to, comply with paragraph 912AB(3)(a); and
- (iii) correctly calculated the projection in paragraph 912AB(3)(a) on the basis of the assumptions the licensee adopted for the projection; and

(b) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, following our examination of the calculations, assumptions and description prepared under paragraph 912AB(3)(c) and relied on by the licensee in complying with paragraph 912AB(3)(a), in all material respects:

- (i) the licensee did not satisfy the requirements of paragraph 912A(1)(h) of the Act for managing the risk of having insufficient financial resources to comply with subsections 912AB(4) and (5) and other financial requirements in conditions on its licence; or
- (ii) the licensee failed to comply with paragraphs 912AB(3)(b), (c) or (d); or
- (iii) the assumptions the licensee adopted for its projection in paragraph 912AB(3)(a) were inappropriate.

7 Licence conditions - Responsible Entity or IDPS Operator [CO 13/760]

Part 7 of this form does **not** apply to the licensee for the financial year.

Part 7 of this form applies only to the period during the financial year, if any, where section 912AA of the *Corporations Act 2001* applied to the licensee (i.e. where the licensee was authorised to operate registered schemes as a responsible entity or was authorised to operate an Investor Directed Portfolio Service (IDPS) as an IDPS operator) – refer also to [CO 13/760].

In relation to the period / / to / / [D D] / [M M] / [Y Y] to [D D] / [M M] / [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

(a) in our opinion, based on our audit, in all material respects the licensee:

- (i) complied with paragraph 912AA(3)(b) and subsections 912AA(4) and (8) and other financial requirements in conditions on its licence; and
- (ii) had at all times a projection that purports to, and appears on its face to, comply with paragraph 912AA(3)(a); and
- (iii) correctly calculated the projection in paragraph 912AA(3)(a) on the basis of the assumptions the licensee used for the projection; and

(b) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, following an examination of the calculations, assumptions and description prepared under paragraph 912AA(3)(c) and relied on by the licensee in complying with paragraph 912AA(3)(a), the projections prepared under paragraph 912AA(3)(a) and the document prepared under paragraph 912AA(3)(e), in all material respects:

- (i) the licensee did not have adequate systems for managing the risk of having insufficient financial resources to comply with subsections 912AA(4) and (8) and other financial requirements in conditions on its licence; or
Note: Paragraph 912A(1)(h) requires a licensee (other than certain bodies regulated by APRA) to have adequate risk management systems; or
- (ii) the licensee failed to comply with paragraph 912AA(3)(c); or
- (iii) the licensee will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; or
- (iv) the licensee will not hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under subsection 912AA(8); or
- (v) the assumptions the licensee adopted for its projection in paragraph 912AA(3)(a) were unreasonable.

8 Licence conditions - Custodial or depository service provider [CO 13/761]

Part 8 of this form does not apply to the licensee for the financial year.

Part 8 of this form applies only to the period during the financial year, if any, where section 912AC of the *Corporations Act 2001* applied to the licensee (i.e. where the licensee was authorised to provide custodial or depository services) – refer also to [CO 13/761].

In relation to the period / / to / / [D D] [M M] [Y Y] [D D] [M M] [Y Y]

where necessary we have included a

qualified opinion adverse opinion disclaimer of opinion

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

otherwise:

(a) in our opinion, based on our audit, in all material respects the licensee:

- (i) complied with paragraph 912AC(3)(b) and subsections 912AC(4) and (7) (or did not need to comply with subsections 912AC(4) and (7) on the basis that subsection 912AC(5) applied) and other financial requirements in conditions on its licence; and
- (ii) had at all times a projection that purports to, and appears on its face to, comply with paragraph 912AC(3)(a); and
- (iii) correctly calculated the projection in paragraph 912AC(3)(a) on the basis of the assumptions the licensee used for the projection; and

(b) based on our review, the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that, following our examination of the calculations, assumptions and description prepared under paragraph 912AC(3)(c) and relied on by the licensee in complying with paragraph 912AC(3)(a), the projections prepared under paragraph 912AC(3)(a) and the document prepared under paragraph 912AC(3)(e), in all material respects:

- (i) the licensee did not have adequate systems for managing the risk of having insufficient financial resources to comply with subsections 912AC(4) and (7) of this section (if applicable) and other financial requirements in conditions on its licence; or

Note: Paragraph 912A(1)(h) requires a licensee (other than certain bodies regulated by APRA) to have adequate risk management systems.

- (ii) the licensee failed to comply with paragraph 912AC(3)(c); or

- (iii) the licensee will not have access when needed to enough financial resources to meet its liabilities over the projected term of at least the next 12 months; or

- (iv) the licensee will not hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under subsection 912AC(7); or

- (v) the assumptions the licensee adopted for its projection in paragraph 912AC(3)(a) were unreasonable; and

(c) if the licensee sought to comply with the NTA requirement in paragraph 912AC(4)(b) on the basis that it was an **incidental provider**, the auditor has no reason to believe that licensee did not satisfy the requirement in paragraph (b) of the definition of incidental provider in subsection 912AC(12).

9 Non-material Matters

Part 9 of this form relates to the audits and reviews (as appropriate) performed in relation to, and the opinions expressed in part 2 to 8, other than the audit and opinion expressed in the "Report on the Licensee's Financial Report/Statements" in part 2.

The opinions expressed have been in all material respects. Unless they have already been reported in parts 2 to 8, we include all non-material misstatements, contraventions or other exceptions identified by us as part of our audits and reviews

below or

in an annexure marked (indicate identifying letter or symbol used to mark annexure)

10 Independence and Quality Control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Australian Standard on Quality Control ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

11 Section 990K Matters

Subsection 990K(1) of the *Corporations Act 2001* requires that, in the performance of duties as auditor of the licensee, we become aware of a matter referred to in subsection (2), we must, within 7 days after becoming aware of the matter, lodge a written report on the matter with ASIC and send a copy of the report to the licensee, and to each licensed market (if any) and each licensed CS facility (if any) in which the licensee is a participant.

Pursuant to section 990K of the Act, if in the performance of our duties as auditor of the licensee, we become aware of a matter referred to in subsection (2), we are required to lodge a written report to ASIC within 7 days.

We have reported all matters to ASIC as required by section 990K, either previously, in other parts of this form, or

below or in an annexure marked (indicate identifying letter or symbol used to mark annexure)

Signature

This form must be signed by:

- the individual auditor; or
- if the auditor is a firm, by an ASIC registered company auditor of the firm; or
- in the case of an authorised audit company, by a current director.

To the best of my knowledge, the information in this form and annexures is true and complete (it is an offence to provide false or misleading information to ASIC).

Name

Signature

Capacity

Auditor

Authorised audit company director

Date signed

<input type="text"/>					
[D]	D]	[M]	M]	[Y]	Y]

Lodgement

Send completed and signed forms to:

Australian Securities and Investments Commission,
PO Box 4000, Gippsland Mail Centre VIC 3841.

For more information

Web www.asic.gov.au

Need help? www.asic.gov.au/question

Telephone 1300 300 630

Guide: Auditor's report for AFS Licensee

This guide does not form part of the form. It is included by ASIC to assist you in completing and lodging the Form FS71.
Refer to Australian Securities and Investments Commission (ASIC) Regulatory Guide 166

Signature	This form must be signed by: • the individual auditor; or • if the auditor is a firm, by an ASIC registered company auditor of the firm; or • in the case of an authorised audit company, by a current director.
Lodgement period	Must be lodged with a Form FS70 each financial year.
Lodgement fees	Nil
Other forms to be completed	Nil
Lodgement details	<p>Electronically through the ASIC website AFS licensees should:</p> <ul style="list-style-type: none">enter the information from their paper FS70 into the AFS licensees portal on our website at www.asic.gov.auattach electronic copies of their financial report/statements and audit report in RTF, TIF or PDF format. File attachments must not contain any active or encrypted content.retain the signed original FS70 and FS71 and financial report/statements for their records, as required under the ASIC Electronic Lodgement Protocol. <p>Electronically through Standard Business Reporting AFS licensees or their auditor should:</p> <ul style="list-style-type: none">enter the information from their paper FS70 into the SBR enabled accounting software. Refer to www.sbr.gov.au for more details.attach electronic copies of their financial report/statements and audit report in PDF format. File attachments must not contain any active or encrypted content. Copies of the financial reports can also be sent in inline XBRL format.retain the signed original FS70 and FS71 and financial report/statements for their records, as required under the ASIC Electronic Lodgement Protocol. <p>Paper Whether lodging in person or by mail, submit the: • signed and original FS70 and FS71 and financial report/statements.</p> <p>AFS licensees should retain signed copies for their records.</p> <p>Postal address: Australian Securities & Investments Commission PO Box 4000 Gippsland Mail Centre Victoria 3841</p>
Application Statements - Part 1	Date ranges are included in the application statements as appropriate. Where no date is included, no statement is taken to have been made.
Limited licensee	Note that under subsection 989B(4) of the <i>Corporations Act 2001</i> (the 'Act') limited licensee means a financial service licensee that (a) does not deal with money to which Division 2 of Part 7.8 of the Act applies; and (b) is only licensed to provide one or more limited financial services.
Market Participant or Clearing Participant	Refer to ASIC Regulatory Guide 166 (including RG166.13 and Appendix 1) for guidance on where an AFS licensee may rely on being a market participant or a clearing participant.

Modified Opinions - Parts 2 to 8	Where the auditor needs to express a modified opinion, including a qualified opinion, adverse opinion or disclaimer of opinion (as per the relevant AUASB standards) this is to be included in the form in the space provided or in an annexure.
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The basis for the modified opinion and the modified opinion itself is to be included with appropriate titles, i.e. "Basis for Qualified Opinion", "Basis for adverse opinion", "Basis for disclaimer of opinion", "Qualified Opinion", "Adverse Opinion", "Disclaimer of Opinion."

Non-material Mistakes - Part 9	The nature, timing and extend of procedures to be planned and performed for an audit or review conducted in accordance the Australian Auditing Standards are determined based on the auditor's assessment of materiality.
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In Part 2 of this form, the opinion required to be provided on the licensee's financial report/statements is on whether the financial report/statements give a true and fair view. The other opinions required by this form in parts 2 to 8 are made in all material respects - part 9 relates to these other opinions.

Where during the course of the audits or and reviews for these other opinions, misstatements are identified and accumulated by the auditor, that are not considered to be material and have not otherwise been reported in parts 2 to 8, they should be reported part 9.

Misstatements to be reported may include, as appropriate, those in relation to non-compliance or exceptions relating to the operating effectiveness of controls, operation and control of accounts, receipt of necessary information, compliance with financial requirements.

Section 990K Matters - Part 11	Subsection 990K(2) requires that a report must be given in relation to any matter that, in the opinion of the auditor:
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- (a) has adversely affected, is adversely affecting or may adversely affect the ability of the licensee to meet the licensee's obligations as a licensee; or
- (b) constitutes or may constitute a contravention of:
 - (i) a provision of Subdivision A or B of Division 2 (or a provision of regulations made for the purposes of such a provision); or
 - (ii) a provision of Division 3 (or a provision of regulations made for the purposes of such a provision); or
 - (iii) a provision of Subdivision B or C of this Division (or a provision of regulations made for the purposes of such a provision); or
 - (iv) a condition of the licensee's licence; or
- (c) constitutes an attempt to unduly influence, coerce, manipulate or mislead the auditor in the conduct of the audit.

See also ASIC Regulatory Guide RG 34 *Auditor's obligations: Reporting to ASIC*.

Procedure	You must complete all applicable fields as indicated on the FS71. If any required fields are incomplete or contain invalid data types, ASIC staff will be unable to process the form. If appropriate, ASIC will contact you by telephone or, if the incomplete or invalid data is significant, the FS71 will be returned to the licensee.
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Penalty	It is an offence not to comply with subsection 1311(1).
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How to provide additional information	<p>Annexures</p> <p>If there is insufficient space in any section of the form, you may alternately submit annexures as part of this lodgement.</p> <p>To make any annexure conform to the regulations, you must</p> <ol style="list-style-type: none"> 1. use A4 size paper of white or light pastel colour with a margin of at least 10mm on all sides 2. show the company name and ACN or ARBN 3. number the pages consecutively 4. print or type in BLOCK letters in dark blue or black ink so that the document is clearly legible when photocopied 5. mark the annexure with an identifying letter or symbol eg a,b,c or 1,2,3 etc. 6. endorse the annexure with the words: This annexure (mark) of (number) pages referred to in form (form number and title) 7. sign and date the annexure <p>The annexure must be signed by the same person(s) who signed the form.</p>
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Privacy	The information provided to ASIC in this form may include personal information. Please refer to our privacy policy (www.asic.gov.au/privacy) for information about how we handle your personal information, your rights to seek access to and correct personal information, and to complain about breaches of your privacy.
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Lodgement	Send completed and signed forms to: Australian Securities and Investments Commission, PO Box 4000, Gippsland Mail Centre VIC 3841.	For more information Web www.asic.gov.au Need help? www.asic.gov.au/question Telephone 1300 300 630
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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5**

Meeting Date: 28 July 2015

Subject: Approval of draft GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001*

Date Prepared: 14 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To present the AUASB with a final draft of GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001* for approval to issue.

Background

On 30 June 2015, ASIC released an updated FS 71 *Auditor's Report for AFS Licensee*. The AUASB have now completed the revision of GS 003 incorporating the changes resulting from an amended FS 71 into account.

The last draft of GS 003 was brought to the 9 June 2014 AUASB meeting. At that meeting, the AUASB was comfortable with the draft GS 003 subject to finalisation of the materiality paragraphs which were dependent upon ASIC's revision of FS 71. The June 2014 draft took into account all feedback from representatives of the informal PAG.

Matters to Consider

The key changes to ASIC form FS 71:

1. Separation of reporting requirements - FS 71 now more clearly separates the reporting requirements of section 989B of the *Corporations Act 2001*, the license conditions, and class order requirements.
2. Licence condition and class order opinions included - in the superseded FS 71 the auditor is required to insert (in paragraph 3) opinions required by licence conditions and class orders. The new FS 71 includes these opinions, along with other statements required by the conditions and class orders that affect how the form is to be applied.
3. Auditing Standards - Revised formatting and wording to better align with the reporting requirements of the AUASB standards.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

4. Materiality - ASIC have sought to clarify reporting requirements in regards to materiality in the guidance to the form and the expression of the opinion/conclusion sections throughout the report as being expressed “in all material respects”.

Key changes to GS 003 arising from the ASIC changes:

1. Materiality and FS 71 paragraphs updated (new paragraphs 50-51)
2. Updated references for revised RG 166 and PF 209
3. Removal Appendix 1 example opinions, now included in FS 71
4. General alignment of GS 003 to new format FS 71

AUASB Technical Group Recommendations

It is recommended that the revised GS 003 be approved for issue by the AUASB.

Material Presented

Agenda Item 5	AUASB Board Meeting Summary Paper
Agenda Item 5.1	Confidential Draft GS 003 (Marked Up Version)
Agenda Item 5.2	Confidential Draft GS 003 (Clean Version)
Agenda Item 5.3	Revised ASIC form FS 71

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to read final draft GS 003.	AUASB to approve GS 003	AUASB	28 July 2015	



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6(a)**

Meeting Date: 28 July 2015

Subject: Revision of ASAE 3500 *Performance Engagements*

Date Prepared: 20 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To consider a draft revised ASAE 3500 *Performance Engagements*.

Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting 24 February 2015 and an updated timetable at the 9 June 2015 meeting. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the Auditors General and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting.
3. A Project Advisory Group was formed in April, with representatives from each of the Audit Offices which conduct performance engagements and an academic. PAG discussions were held in mid-May, to discuss the proposed approach to addressing issues identified and to recommend the scope of the revised standard, and in mid-June, to discuss an initial draft standard.
4. The initial recommendations of the first PAG discussion was that the scope of the revised ASAE 3500 should address:
 - (a) assurance over performance outcomes rather than outputs, so as to exclude assurance on service performance information or other information measured purely by key performance indicators (KPIs) or other performance metrics;
 - (b) both direct engagements and attestation engagements, including “follow-on” engagements but excluding assurance over service performance information reported;
 - (c) both reasonable and limited assurance;

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- (d) both long form and short form reporting;
- (e) flexible scope and reporting to accommodate different Government reporting requirements; and
- (f) broad objectives of a performance engagement not limited to economy, efficiency and effectiveness to allow flexibility to address other objectives.

5. The recommended content of the revised ASAE 3500 would include:

- (a) requirements anchoring to ASAE 3000, but as the subject matter specific standard would need to override ASAE 3000 if any inconsistency arose;
- (b) tabular format to separate limited and reasonable assurance requirements;
- (c) explanation of materiality and risk assessment in the context of performance engagements;
- (d) consideration of the needs of users, such as plain English wording of conclusions so they are more meaningful to Parliament and other users;
- (e) management representations supported by documentation at the entity;
- (f) the manner in which “acceptance and continuance” of engagements is undertaken in a performance engagement, where the engagement is usually chosen by the Auditor General as part of strategic planning rather than requested by the entity; and
- (g) incorporation of public sector specific needs in reporting such as descriptive sections as engagements are primarily public sector.

Matters to Consider

Part A – General

6. The second PAG discussion resulted in recommendations for the scope of the revised ASAE 3500 to address:
- (a) The subject matter of the engagement to be an “activity” rather than an “activity at an entity”, as the activity may run across multiple entities or be within an entity;
 - (b) Assurance over an activity evaluated against “performance objectives” rather than performance “outcomes”;
 - (c) Only direct engagements, which would exclude engagements on service performance information;
 - (d) Application to attestation engagements, “adapted and supplemented as necessary in the engagement circumstances”, so that “follow-on” performance engagements could use the standard;
 - (e) Initiation of the engagement by an AG or acceptance of the engagement in the private sector, rather than acceptance and continuation, as engagements do not usually continue; and
 - (f) The wording of the standard to reflect terminology used by performance auditors and minimise wording which is unique to AUASB standards which may not be well understood by performance auditors, including the terms used for modifications to the assurance conclusion for which clearer terms can be used.

7. The draft standard, Agenda Item 6(a).1, has been written for direct engagements and has adapted and supplemented the requirements of ASAE 3000 as necessary to address direct engagements, as that standard only addresses attestation engagements. Draft ASAE 3500, anchors to ASAE 3000 to the extent that the requirements of ASAE 3000 are relevant to direct engagements. Wherever possible, the draft standard has used terms which can be readily understood by performance auditors.
8. The PAG will meet on 30 July to discuss the draft standard.

Part B – NZAuASB

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is participating in the NZAuASB Working Group to support the NZ project to develop a standard on assurance of *Service Performance Information* and monitoring the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information*. Engagements under ASAE 3500 are distinct from engagements on Service Performance Information, consequently ASAE 3500 will not include those engagements.

AUASB Technical Group Recommendations

The AUASB Technical Group recommends that the AUASB provide comments on the initial drafting of revised ASAE 3500.

Material Presented

Agenda Item 6(a)	AUASB Board Meeting Summary Paper
Agenda Item 6(a).1	Draft revised ASAE 3500 <i>Performance Engagements</i> [Confidential]

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider draft revised ASAE 3500.	Provide comments on the draft standard.	AUASB	28 July 2015	Pending

Revision of ASAE 3100 Compliance Engagements

Agenda Item 6(b).2
AUASB Meeting 28 July 2015

Project Timeline		2015														
AUASB Meetings		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Project activity/milestone																
1	Background research															
2	Project plan approved by AUASB		●✓													
3	1st PAG meeting			●		✓ ¹										
4	Issues paper developed & considered by AUASB			●			✓									
5	2nd PAG Meeting				●			✓								
6	1st draft considered by AUASB					●		✓								
7	3rd PAG Meeting															
8	Final ED approved for exposure by AUASB							●								
9	ED 60 day exposure period															
10	Stakeholder engagement and targetted discussions															
11	Analysis of ED comments in disposition & redrafting															
12	Regulatory Impact Assessment/RIS submitted and OBPR clearance obtained										●					
	Update regulatory impact assessment if necessary															
13	4th PAG Meeting															
14	ED comments considered & disposition presented to AUASB										●					
15	5th PAG meeting															
16	Final Standard, explanatory memorandum & basis for conclusions prepared and approved by AUASB										●					
17	Final QA and issue revised and readrafted ASAE 3500										●					
Legend																
	Project activity - planned															
	Project activity - actual met plan															
●	Project deliverable - planned															
●✓	Project deliverable - actual met plan															
✓	Project activity - actual later than planned															
	Project deliverable - actual later than planned															
	Project Activity - amended plan															
●	Project deliverable - amended plan															
●✓	Project deliverable - actual met amended plan															
Notes/Reasons for change from project plan																
¹	Delays in holding first PAG meeting were due to key project resources being allocated to other priority projects (GS018) to be completed for 9 June meeting and confirming final PAG members and co-ordination of times for 1st meeting.															



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6(b)**

Meeting Date: 28 July 2015

Subject: Revision of ASAE / SAE 3100 Compliance Engagements

Date Prepared: 20 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To consider the first draft ED XX of ASAE / SAE 3100 *Compliance Engagements* for feedback.

Background

1. ASAE 3100 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified some matters to be addressed in any future revisions to ASAE 3100.
2. The NZAuASB also completed a post-implementation survey for SAE 3100 in April 2015 and any matters raised will also be addressed by the NZAuASB in their revision of SAE 3100 and considered by the AUASB in the revision of ASAE 3100 to ensure consistency.
3. The AUASB approved a project plan to revise ASAE 3100 at the AUASB meeting in February 2015.

Matters to Consider

Part A – General

1. Following approval of the project, the AUASB invited a representative as nominated by the appropriate AUASB Board member where applicable, from the Big 4 accounting firms, two mid-sized firms, NZAuASB and academia to participate on a Project Advisory Group (PAG) to advise the AUASB on development of a revised standard.
2. Following formation of the PAG, a PAG discussion was held in mid-May to discuss the proposed approach to addressing issues identified to that point, to identify any further matters to be addressed in the revision and to recommend the scope of the revised standard.
3. The 2nd PAG meeting is scheduled for Thursday, 23 July where the draft ED will be discussed as attached. Any outcomes from this meeting will be verbally discussed with the AUASB at the 28 July meeting.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Part B – NZAuASB

1. This is a joint project with NZAuASB, as they currently have SAE 3100 *Compliance Engagements* (August 2011) which is in clarity format however needs to be revised to remain consistent with ISAE 3000 (revised) and ASAE 3100 (revised).
2. The NZAuASB technical group will be recommending to the NZAuASB for consideration at their 22 July meeting that:
 - Changing the format of SAE 3100 to align with the ED draft of ASAE 3100 ;
 - Whether the NZ standard will include multiple scope engagements; and
 - Remain silent on the prohibition of the use of direct assistance (which is included in ASAE 3100).

AUASB Technical Group Recommendations

Consideration of the draft ED XX of ASAE 3100 *Compliance Engagements* to provide feedback on progress to date.

Material Presented

Agenda Item 6(b)	AUASB Board Meeting Summary Paper
Agenda Item 6(b).1	Draft ED XX ASAE / SAE 3100 <i>Compliance Engagements</i> [Confidential]
Agenda Item 6(b).2	Project Timeline

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider Draft ED XX ASAE 3100.	Feedback from AUASB on Draft ED XX ASAE 3100.	AUASB	28 July 2015	Pending



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 6(c)

Meeting Date: 28 July 2015
Subject: NZAuASB Project on *Service Performance Information*
Date Prepared: 23 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To update the AUASB on the progress of the joint AUASB and NZAuASB project to develop a standard on service performance information.

Background

1. The AASB and NZ AASB are running projects in parallel to develop an Accounting Standard in each jurisdiction on Service Performance Reporting. The AASB Standard will be directed at public and private sector Not-for-Profits which report Service Performance Information, either voluntarily or by legislative requirement (such as pursuant to the PGPA Act) in Australia, which may be reported at the same time or separately from the financial report. In contrast, in NZ, the Service Performance Report will form part of the General Purpose Financial Report (GPFR) for Public Benefit Entities (PBE). The AASB's Standard is expected to be approved as an ED and issued for comment in late August 2015 and the NZ AASB's ED is likely to be issued later in the year.
2. At the 11 June 2015 NZAuASB meeting, the Board approved a project to develop a NZ Auditing Standard on service performance information. The NZAuASB have set up a Working Group to advise on development of the Standard. At the previous AUASB meeting on 9 June, the AUASB was informed that the Chairman was keen for the AUASB to jointly participate in this project.

Matters to Consider

Part A – General

1. The AUASB is participating in the NZAuASB Working Group through a Technical Group member, on Service Performance Information and is attending NZAuASB meetings for the relevant agenda item. As there are no legislative requirements for assurance on service performance information reported in Australia and the AASB ED is yet to be issued, no project is yet proposed for development of an Auditing or Assurance Standard on the Service Performance Information. The outcome of the NZ project may be considered for applicability or adaption to the Australian environment in due course.

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Part B – NZAuASB

1. At the NZAuASB meeting on 22 July 2015, the Board considered an issues paper and outline of a draft Auditing Standard on Service Performance Information (NZAuASB Agenda Item 6(c).1 and Agenda Item 6(c).2). The Standard is being drafted as an Auditing Standard because the service performance information will form part of the GPFR in NZ, for PBEs. Consequently it will be audited at the same time as the financial information and will be integral to the annual financial audit. An AUASB Technical Group member attended the 22 July NZAuASB meeting by teleconference for that agenda item and participated in the discussion.

Material Presented

Agenda Item 6(c)	AUASB Board Meeting Summary Paper
Agenda Item 6(c).1	NZAuASB 22-7-15 Agenda Item 7.1 Board Meeting Summary Paper “Standard on Service Performance Information”
Agenda Item 6(c).2	NZAuASB 22-7-15 Agenda Item 7.3 Service Performance Issues Paper & Agenda Item 7.4 Outline of draft standard for discussion.



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 7(c).1

Meeting Date: 9 June 2015
Subject: Integrated Reporting Update
Date Prepared: 2 June 2015

Key Activities since 9 June 2015

IIRC

1. [IIRC June 2015](#) Newsletter provides further information on <IR> activities undertaken by the IIRC in recent months.
2. The IIRC released their feedback statement on the <IR> website in early July which calls for market-led action to enhance confidence in <IR>. The IIRC is calling for action to continue to strengthen the overall credibility of, and trust in <IR>. This is a key message in the “Overview of feedback and call to action” published by the IIRC, which summarizes matters raised in the debate engendered by our Assurance on <IR> publications released in July 2014.

IAASB <IR> WG

1. The IAASB <IR> Assurance Working Group, chaired by Merran Kelsall, has prepared a short staff paper in response to the IIRC feedback statement which will be released shortly. Depending on the outcomes from this process a more detailed assurance discussion paper may then be prepared by the <IR> Working Group in early 2016 for consideration by the IAASB.
2. The IAASB <IR> Assurance Working Group met on the 11 and 12 June 2015 in New York where the summary staff paper was finalised and feedback on the IIRC statement provided and some further expert discussions held.
3. At the IAASB Meeting in June 2015 there was a panel discussion about <IR> developments and assurance thereon that included the perspective of two preparers (The Prudential Insurance company of America and Nov Nordisk), investor (Rockefeller & Co) and assurance practitioner (EY).
4. The IAASB <IR> Assurance Working Group will next meet on the 20 and 21 July 2015 in San Francisco to look at the detailed responses to the IIRC assurance papers and look at the structure and content of the more detailed assurance discussion paper.

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 7(c)

Meeting Date: 28 July 2015
Subject: Integrated Reporting Update
Date Prepared: 16 July 2015

Action Required **For Information Purposes Only**

Agenda Item Objectives

Update the AUASB on <IR> Activities since the 9 June 2015 meeting.

Background

Refer to detail in the attachment at Agenda Item 7(c).1.

Matters to Consider

Part A – General

Refer to Agenda Item 7(c).1 for a brief update on IAASB IR WG and IIRC activities since June 2015.

Part B – NZAuASB

N/A

Part C – “Compelling Reasons” Assessment

N/A

The proposed changes conform with IAASB modification guidelines for NSS?

Y N

Material Presented

Agenda Item 7(c) AUASB Board Meeting Summary Paper

Agenda Item 7(c).1 Attachment to AUASB Board Meeting Summary Paper

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(a)**

Meeting Date: 28 July 2015

Subject: Emissions Reduction Fund and Clean Energy Regulator Update

Date Prepared: 15 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To provide the AUASB with an update on developments in relation to:
 - a. The Emissions Reduction Fund (ERF) and the Safeguard Mechanism, including the activities of the Department of Environment in developing legislation and regulation for the schemes, and the Clean Energy Regulator (CER), who administers the schemes.
 - b. The National Greenhouse and Energy Reporting (NGER) and related schemes which the Clean Energy Regulator (CER) administers.
2. To consider whether and when Guidance Statement GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* will be updated to reflect the current schemes.

Background

Policy

The Department of Environment is responsible for policy development in relation to climate change and is responsible for developing the policy with respect to the government's ERF, the legislation necessary to implement the scheme and the methodology determinations for quantification of abatements under each type of project, and the proposed Safeguard Mechanism, designed to encourage businesses not to increase emissions above historical levels. The ERF replaced the carbon pricing mechanism (CPM), which was repealed with effect from 1 July 2014, and integrated all projects operating under the Carbon Farming Initiative (CFI), when the ERF formally commenced on 12 December 2014. Assistance schemes related to the CPM, the Jobs and Competitiveness program (JCP) and partial exemption certificate (PEC) relief under the Renewable Energy Target (RET) were discontinued with effect from 1 July 2014. The RET itself, however, continues to operate.

Regulation

The CER is responsible for the administration of schemes related to climate change, which currently include:

- National Greenhouse and Energy Reporting Scheme (NGERS) – on-going reporting requirements.
- ERF – auctions to purchase abatements and monitoring of reporting and assurance under the abatement contracts issued.

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- Proposed Safeguard Mechanism – Large emitters will be required to keep their emissions below a set baseline, based on historical NGERS data. They will be able to surrender credits to offset any emissions over the baseline.
 - Renewable Energy Target - encourages the additional generation of electricity from sustainable and renewable sources by requiring electricity retailers to surrender certificates to the CER, for electricity purchased from the coal or gas-fired power generators.

Matters to Consider

The AUASB continues to liaise with the CER with respect to implementation of the ERF and assurance under the scheme. The ERF has been introduced by way of amendments to the *Carbon Credits (Carbon Farming Initiative) Act 2011*, issued in February 2015, which provide for the CER to conduct auctions and enter into contracts to purchase emissions reductions. The amendments enable a broader range of emissions reduction projects to be approved, as well as amending the project eligibility criteria and processes for approving projects and crediting carbon credit units. The ERF formally commenced on 12 December 2014 and the first auction under the ERF was held in April 2015. The auctions will be used by the CER to purchase emissions abatements in the form of Australian carbon credit units (ACCUs), on behalf of the Government. ERF contracts include a schedule for the delivery of ACCUs submitted by the project proponent, reporting under the scheme and will be subject to an audit, the frequency of which will depend on the volume of abatement.

The AUASB advised the Department of Environment in drafting *Carbon Credits (Carbon Farming Initiative) Rule2015*. The Rules specify the nature and frequency of the audit requirements and the form of the audit reports to be provided with respect to ERF projects. The Rules provide for projects to undertake an initial audit at the beginning of the crediting period with a minimum of three audits, including the initial audit, in total over crediting periods of seven years or more.

During the year the Department of Environment have been progressively issuing methodology determinations for each new activity which the ERF encompasses. Existing CFI projects were automatically transitioned to the ERF when it commenced on 12 December 2014. Changes to current and new methods will not affect these existing projects, in that they may either continue to operate under their existing CFI methods or apply to use an applicable ERF method.

The proposed Safeguard Mechanism will start in 2016 and will require the largest emitters to keep their emissions below a set or historical baseline. The AUASB has also been advising the Department of Environment on the assurance requirements with respect to Safeguard Mechanism baseline applications.

The AUASB Technical Group will continue to advise the CER and the Department of Environment on assurance matters and monitor their activities.

AUASB Technical Group Recommendations

With the repeal of CPM and related assistance schemes and the introduction of the ERF and proposed Safeguard Mechanism, GS 021 is now out-of-date. However, the AUASB Technical Group recommends that the AUASB delay amendments to GS 021 until the ERF is bedded down, the Safeguard Mechanism is in place and the future of the various schemes is clear.

Material Presented

Agenda Item 8(a) AUASB Board Meeting Summary Paper



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 8(d)

Meeting Date: 28 July 2015

Subject: AUASB Strategy 2015-2019 and AUASB Technical Work Program for year ending 30 June 2016

Date Prepared: 21 July 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To provide to the AUASB with:

1. a final draft AUASB Strategy 2015-2019; and
2. a revised Technical Work Program for year ending 30 June 2016.

A draft AUASB Strategy 2015-2019 which has been revised and presented in a format similar to that of the AASB (refer Agenda Item 8(d).2) and was considered at the previous meeting. This document has now been further revised and will be considered at the 28 July meeting.

The AUASB Technical Work Program for the new financial year ending 30 June 2016 has been prepared for the AUASB's consideration at the 28 July meeting, reflecting the above and projects which will be undertaken by the IAASB over the next 12 months.

Material Presented

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|--------------------|---|
| Agenda Item 8(d) | AUASB Board Meeting Summary Paper |
| Agenda Item 8(d).1 | Draft final AUASB Strategy 2015-2019 (to be emailed prior to AUASB meeting) |
| Agenda Item 8(d).2 | Final AASB Strategy 2015-2017 [information only] |
| Agenda Item 8(d).3 | Revised AUASB Technical Work Program for year ending 30 June 2016 |

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB Strategy 2015-2019	To approve	AUASB	28 July 2015	
2.	AUASB Technical Work Program for year ending 30 June 2016	AUASB to note and approve	AUASB	28 July 2015	

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