



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **2(a)**

**Meeting Date:**               31 January 2017

**Subject:**                       ED 07-17 ASA 2016-2 Amendments to Australian Auditing Standards

**Date Prepared:**               23 January 2017

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

AUASB to consider:

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

### **1. Background**

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

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

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

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

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

- For consolidated and parent entity financial statements key audit matters are communicated for the consolidated financial report as a whole.
  - For a stapled security group the auditor determines and communicates key audit matters for the stapled group financial report.
  - In both scenarios the auditor may elect to communicate KAMs for the parent entity or separate stapled issuer.
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Refer to 01-17\_AI\_2(a).2\_KAMs\_Parent\_entity\_and\_stapled\_security\_groups for full details of this issue.

The proposed amendments to ASA 701 were issued as ED 07-16 on 22 December 2016. Refer to 01-17\_AI\_2(a).1\_Disposition\_paper\_ED\_ASA700\_701 for details and disposition on the comments received.

### Amendments to ASA 700

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

The proposed amendments were included in ED 07-16 on 22 December 2016. Refer to 01-17\_AI\_2(a).1\_Disposition\_paper\_ED\_ASA700\_701.

### Communicating KAMs for audited Interim Financial Reports

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

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

This impacts the communication of KAMs on audited **condensed** Interim Financial Reports prepared under AASB 134, and was not considered at the time of issuing ASA 701. Refer to 01-17\_AI\_2(a).3\_KAMs for half year financial reports for technical analysis.

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

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

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

Refer to 01-17AI\_2(a).1\_Disposition\_paper\_ED\_ASA700\_701 for details and disposition of comments received.

## **2. Summary of comments received and proposed disposition**

At the time of finalizing this paper two submissions are yet to be received. The submissions received to date are summarized in 01-17AI\_2(a).1\_Disposition\_paper\_ED\_ASA700\_701. ASIC have indicated they will submit a confidential staff level comment letter, however this is yet to be received. However in preparation for the AUASB meeting next week Anne Waters met with Doug Niven to discuss his initial comments. This is included in the disposition paper.

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

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

#### ***Parent and consolidated financial reports***

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

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

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

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

This matter impacts having consistent Auditing Standards with NZ AuASB.

#### *Questions for the AUASB*

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

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

#### *Stapled security groups*

In summary all respondents were in favour of the amendments to ASA 701 except for one respondent. Refer to 01-17AI\_2(a).1\_Disposition\_paper ED\_ASA700\_701 for details of the matter raised.

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

#### *Questions for the AUASB to consider*

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

#### Amendments to ASA 700

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

#### Communicating KAMs for audited Interim Financial Reports

In summary all respondents were in favour of amending ASA 701 for this matter except one respondent who does not support the amendment. Refer to 01-17AI\_2(a).1 Disposition\_paper ED\_ASA700\_701 which provides details of the comment received in relation to this. Also one respondent who agreed with the compelling reason to amend ASA 701 however had a comment on the terminology.

#### *Question for the AUASB to consider:*

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

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

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

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

Or use the terminology included in CPA's submission. Refer to 01-17AI\_2(a).1\_Disposition\_paper ED\_ASA700\_701

## AUASB Technical Group Recommendations

The AUASB Technical Group recommend to the AUASB:

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

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

## Material Presented

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