Australian Government
Auditing and Assurance Standards Board

AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**4(a)**
Meeting Date:	26 April 2017
Subject:	Auditor Reporting
Date Prepared:	11 April 2017

[X] **Action Required**

Agenda Item Objectives

AUASB to:

- Consider and approve FAQs on communicating KAMs for interim financial reports, consolidated and parent entity financial reports and stapled security groups – Appendix 1;
- Consider and provide comments on additional FAQs drafted by AUASB Technical Group – Appendix 2;
- Consider and approve the Australian release of FAQs which have been approved and released by the NZAuASB (and the IAASB) – Appendix 3.
- Consider and if in agreement, approve the AUASB Technical Group to commence drafting the additional FAQs requested by the Australian Public Policy Committee Audit Quality Working Group (APPC) – Appendix 4.

1 Background

At its meeting on 27 March 2017 the AUASB agreed that the key principles in relation to when Key Audit Matters (KAMs)are required to be communicated are when an entity:

(a) Has prepared a complete set of financial statements; and

(b) Is considered to be a listed entity.

Based on these principles it was agreed by the AUASB that:

- As a condensed interim financial report prepared under AASB 134 *Interim Financial Reporting* is not a complete set of financial statement, KAMs are not required in the auditor's report on a condensed interim financial report prepared in accordance with AASB 134.
- When parent entity financial statements are described in the basis of preparation note and the directors' declaration, as general purpose financial statements prepared in accordance with the Australian Accounting Standards, and the auditor is providing an opinion on the parent entity, KAMs specific for the parent entity are required to be communicated in accordance with ASA 701.

The AUASB requested that the Technical Group draft FAQs on these matters, and to consider the impact on ASA 701.

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In relation to communicating KAMs for stapled security groups, the AUASB deliberated on whether each entity within a stapled security group meets the definition of a listed entity. There were different views expressed by AUASB members and as a consequence the AUASB requested that the AUASB Technical group further consider the matter.

Note: Minor updates to the 27 March 2017 AUASB Board Papers have been made by the AUASB Technical Group to reflect additional factors for consideration by AUASB members on this topic. Refer to Board Papers 04-17 AI 4(a).1 and 04-17 AI 4(a).2 for details. Amendments made since the 27 March Board Papers were sent have been highlighted in yellow.

Since the AUASB's 27 March 2017 Teleconference the AUASB's Technical Group and the Chairman have considered this matter further and have drafted FAQs on these topics for the AUASB's consideration.

Refer to Appendix 1 for FAQs on when KAMs are required for condensed interim financial reports, parent entity financial statements and stapled security groups for the AUASB's consideration, and if appropriate, approval.

Appendix 2 includes additional draft FAQs requested previously by the AUASB. Note to assist AUASB members the AUASB Technical Group have attached the ASX's brochure "Quoting Investment Products on ASX" for additional background information at Board Paper 04-17 AI 4(a).3.

Appendix 3 includes additional FAQs which have been released by the IAASB and NZAuASB.

Appendix 4 includes new additional FAQs requested by the APPC.

2 AUASB Technical Group Recommendation

To retain consistency with ISA 701, ASA 701 does not need to be amended to address when KAMs are required for condensed interim financial reports, parent entity financial statements and stapled security groups. Instead the publishing of FAQs to address these issues is appropriate.

Consequently, the AUASB Technical Group recommends that the AUASB:

- Approve the FAQs in Appendix 1.
- Provide comments / amendments to the FAQs in Appendix 2 and 3 and to consider if it is appropriate to approve, subject to the AUASB's Technical Group's quality review.
- Approve for the AUASB's Technical Group to draft responses to the additional FAQs requested by the APPC.

3 AUASB Actions

- Review and, if agreed, approve the FAQs in Appendix 1.
- Provide comments / amendments to the FAQs in Appendix 2 and 3 and, subject to the AUASB's Technical Group's quality review, approve their publication.
- Approve for the AUASB Technical Group to commence drafting responses to the FAQs requested by APPC in Appendix 4?

Material Presented

Agenda Item 4(a)	AUASB Board Meeting Summary Paper
Agenda Item 4(a).1	Parent entity and consolidated financial report - Updated 27.03.17 Meeting Paper
Agenda Item 4(a).2	Stapled Security Groups - Updated 27.03.17 Meeting Paper
Agenda Item 4(a).3	Quoting investment products on ASX

APPENDIX 1

AUDITOR REPORTING FAQS – RELEASE 2

DRAFT FOR AUASB CONSIDERATION

1. How are KAMs communicated for parent and consolidated financial reports?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities.
- Parent entity financial information may be presented within a consolidated financial report either by way of a note (as required by the Australian Accounting Standards), or as a separate column in a 4 column financial report, as allowed by ASIC Class Order 10/654.
- In consolidated financial reports which include parent entity information in a note only, KAMs do not need to be identified separately for the parent entity. However if there is a matter relative to the parent entity which is considered to be a KAM at the consolidated financial report level, the auditor may communicate this in the auditor's report on the consolidated financial report.
- If an entity elects to prepare a 4 column consolidated financial report including general purpose parent entity financial statements, they must be prepared in accordance with the Australian Accounting Standards. Therefore the auditor should communicate KAMs addressing the audits for both the parent entity and the consolidated entity separately.
- If a KAM is relevant to both the parent and the consolidated entity, the description should clearly explain how the KAM relates to each entity, as there will likely be differences. For example, a matter relating to goodwill impairment in the group is likely to be different from the asset impairment in the parent.
- If the parent entity has limited operations there may be no KAMs and the auditor's report reflects this as:

Key Audit Matters We have determined there are no Key Audit Matters to communicate in our report for the parent entity

- If the parent entity prepares a separate set of special purpose set of financial statements, KAMs are not required to be communicated[1].

2. Are KAMs communicated for audited half year financial reports?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities.
- Entities may elect to have their half year financial report audited or reviewed[2].
- KAMs do not need to be communicated in the auditor's review report.

[1] ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks paragraph* A16
[2] *Corporations Act 2001* s 302(b)

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- Entities may elect to prepare complete or condensed interim / half year financial reports under AASB 134 *Interim Financial Reporting*, both of which are general purpose financial reports.

- AASB 134 is clear that a set of condensed financial statements for interim reporting is not a complete set of financial statements. As condensed interim / financial reports are not a complete financial report, KAMs are not communicated in the auditor's report.

- KAMs should be communicated in the auditor's report for complete half year financial reports.

3. How are KAMs communicated for Stapled Security Groups?

- KAMs are communicated in the auditor's report of general purpose financial reports of listed entities. The ASAs use the term financial report to align to local legal and regulatory requirements, however the term financial report and complete set of financial statements have the same meaning.

- Stapled security groups are a group of entities consisting of entities which are stapled issuers, and other entities controlled by the stapled issuers.

- A stapled issuer is an entity which has issued equity instruments that are stapled to the equity instrument of another legal entity or entities. They form and are quoted as a single saleable security, and cannot be traded separately.

- Each stapled issuer, and the stapled group is required to prepare and lodge audited general purpose financial reports. These financial reports can be separate, or may be presented in adjacent columns within the one report as allowed by Class Order 2015/838.

- A listed entity is defined in the Australian Auditing Standards[3] as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange or other equivalent body.

- Each stapled issuer meets the definition of a listed entity as it is admitted separately to the ASX official list. Therefore KAMs are identified and communicated for separately for each stapled issuer and the stapled group.

- If the stapled issuer and the stapled group financial reports are presented together as allowed by Class Order 2015/838, the KAMs section in the auditor's report details which entity each KAM relates to.

- A KAM may be relevant to both the stapled issuer, and the stapled group. For example an investment property in the stapled issuer may be treated as property plant and equipment in the stapled group. In this scenario the KAM description includes how the matter was addressed in each audit.

- Where a stapled issuer has limited operations and in the auditor's judgement there are no KAMs, the auditor documents their rationale[4], and communicates in the auditor's report as follows:

> **Key Audit Matters**
>
> We have determined there are no Key Audit Matters to communicate in our report for the stapled issuer (name of the entity).

- ASA 701 paragraph 14 allows the auditor to not communicate matters identified as KAMs, if in the auditor's judgement, there are adverse consequences which outweigh the public

[3] ASQC 1 and ASA 220, paragraph 7
[4] ASA 701, paragraph 18

interest benefit of providing greater transparency. If the auditor believes that communicating KAMs for the stapled issuer would not be beneficial to users, or may be confusing to users, they may elect not to communicate the matter, and communicate KAMs for the stapled

AUDITOR REPORTING FAQS – RELEASE 2

DRAFT FOR AUASB CONSIDERATION

4. What date does the auditor date the auditor's report?

- The auditor dates the report the date that it is signed.

5. How does the auditor determine the documents that comprise the annual report?

- The annual report may be a single document or a combination of documents that serve the same purpose.

- Information found in the annual report includes material required by statutory and regulatory requirements from the *Corporations Act 2001* and the ASX listing rules, plus may include additional voluntary reporting.

- Determining the documents that comprise the annual report is often clear as they are within the one document and are referred to by the title "Annual Report".

- If this is not the case the auditor uses professional judgement and evaluates what documents are considered integral, and for whom they are intended, and whether they comprise the annual report.

- Auditors have an ethical requirement to avoid being knowingly associated with information that the auditor believes contains materially false or is misleading. If supplementary information is issued with the annual report, and is not considered an integral part of the audited financial report, or comprising the annual report, the auditor evaluates whether this information is clearly differentiated from the annual report. If it is not clearly differentiated the auditor requests that the presentation is changed to do so. If this is not rectified the auditor details in the auditor's report that such information is not covered by that report.[5]

6. What does the auditor's report include if not all of the other information has been received at the date of the auditor's report?

- Auditor's reports of listed entities provide details of the other information they have received, and have not received, as at the date of the Auditor's Report.[6] .

- When detailing the other information they have received, and have not received for listed entities, the auditor refers to the specific name of the documents to avoid any confusion as to the other information which the auditor has read and considered as at the date of the auditor's report.

- Auditor's reports of non-listed entities include details of the other information obtained before the date of the Auditor's Report, however are not required to include the details of the other information not yet received. If no other information has been received before the date of the Auditor's Report, the Auditor's Report does not include an Other Information section. However as the Director's Report is other information and is ordinarily received before the Auditor's Report date, this is unlikely to be the case for audits conducted under the *Corporations Act 2001*.

7. How does the auditor's responsibility statements differ for different types of entities?

[5] ASA 700, paragraph 54
[6] ASA 720, paragraph 21

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- The auditor’s responsibilities section in the auditor’s report is no longer boiler plate and is amended depending on the type of entity being audited.

- All auditor’s reports include the content required by ASA 700 paragraphs 37, 38 and 39 (a) and (b).

- ASA 700 paragraph 39 (c) is applicable for audits where ASA 600 applies.

- ASA 700 paragraph 40 (b) and (c) is applicable for audits of listed entities.

8. How does the auditor make reference to the auditor’s responsibilities statement on the AUASB website?

- The following options are available to present parts of the auditor’s responsibility section[7]:

  - ♦ within the body of the Auditor’s Report (as is current practice)

  - ♦ within an appendix to the Auditor’s Report with a reference in the Auditor’s Report to the appendix

  - ♦ or by including a reference within the Auditor’s Report to the relevant page on the Australian Auditing and Assurance Standards Board (AUASB) website (www.auasb.gov.au/Home.aspx).

- The auditor’s report should refer to the specific webpage that applies to the auditor’s responsibilities applicable in the context of the engagement[8].

- Included on the AUASB website are auditor responsibility statements for:

  - ♦ Listed single company – Corporations Act 2001 (AR1)

  - ♦ Listed group entity – Corporations Act 2001 (AR2)

  - ♦ Single non-listed entity (fair presentation framework) (AR3)

  - ♦ Single non-listed entity (compliance framework) (AR4)

  - ♦ Listed single entity (AR5)

  - ♦ Listed group entity (AR6)

  - ♦ Single entity (ASA 600 applies) (AR7)

  - ♦ Non-listed group entity (AR8)

- When referring to the responsibilities statements the auditor needs to include the following URL, where # is the number of the statement above:

  - ♦ http://www.auasb.gov.au/auditors_files/ar#.pdf

9. Are auditor’s reports on special purpose financial reports impacted by the changes to the auditor’s report?

- ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks has been re-issued to align with the new auditor’s report requirements.

[7] ASA 700, paragraph 41
[8] ASA 700, paragraph Aus A57.1

- Auditor's reports on special purpose financial reports are not within the scope of ASA 701, and therefore there is no requirement for the auditor to communicate KAMs. However the auditor can elect to communicate KAMs.

10. Are auditor's reports on summary financial statements impacted by the changes to the auditor's report?

- ASA 810 *Engagements to Report on Summary Financial Statements* has been re-issued to align with the new auditor's report requirements.

- Where an auditor's report on the complete financial report includes communication of KAMs, the auditor's report on the summary financial statements and concise financial reports states that the auditor's report on the full financial report includes communication of KAMs.

- The auditor is not required to describe the KAMs in the auditor's report of a concise or summary financial report, however the auditor, using professional judgement, may include more detailed references to KAMs.

11. What is the auditor's responsibility in relation to information in documents containing summary financial statements?

- ASA 810 requires the auditor to read and consider the information included in documents containing summary financial statements, and consider whether there is a material inconsistency between that information and the summary financial statements[9].

- If the other information included with summary financial statements, is the same as the other information included in the annual report, the work performed by the auditor in accordance with ASA 720 maybe adequate.

- If the auditor identifies a material inconsistency, the auditor discusses this with management and determines whether the summary financial statements or the information included in the document containing the summary financial statements needs to be revised. If management do not make appropriate amendments to address the material inconsistency the auditor considers the impact on the auditor's report.

- If the auditor's report on the financial report concludes that there is an uncorrected material misstatement in the other information in the annual report, and this information is included in a document containing the summary financial statements, the auditor's report on the summary financial statements includes reference to this, and describes the uncorrected material misstatement of the other information containing the summary financial statements.

- If there is unaudited supplementary information presented with Summary Financial Statements the auditor evaluates whether this is clearly differentiated from the summary financial statements. If considered necessary, the auditor explains in the auditor's report that such information is not covered by that report.

12. Are products quoted on the ASX under the AQUA Rules[10] considered listed entities for the purposes of auditor reporting requirements?

- The definition of listed entity is an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulation of a recognised stock exchange.

- The Aqua Rules govern products such as Managed Fund Products, Exchange Traded Funds, and Structured Products, quoted on the ASX.

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[9] ASA 810 para 14
[10] define

- Products quoted on the ASX under the Aqua Rules are not separate entities, and investors who purchase these products do not acquire shares, stock or debt of the entity as such.
- These product are not included on the official ASX list and are not subject to the ASX's listing rules.
- These products do not meet the definition of listed entity per the Australian Auditing Standards.

NZAuASB FAQ QUESTIONS NOT CURRENTLY IN AUASB FAQ

Changes to the Auditor's Report

2.What is the definition of a FMC reporting entity considered to have a higher level of public accountability?

A FMC reporting entity considered to have a higher level of public accountability is defined as a FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the Financial Markets Conduct Act 2013; or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Types of FMC reporting entities considered to have a higher level of public accountability include:

- listed issuers

and other FMC reporting entities considered to have a higher level of public accountability including unlisted:

- equity issuers who make a regulated offer (and have more than 50 shareholders);
- debt issuers who make a regulated offer;
- licensed derivative issuers;
- licensed Managed Investments Scheme (MIS) managers (for the financial statements of the MIS they manage);
- recipients of money from a conduit issuer;
- registered banks;
- licensed insurers;
- credit unions;
- building societies;
- any other entity designated by the FMA as having a higher level of public accountability.

Information on FMC designations is available on the FMA website.

5.Where can I see what the changes look like?

There are early adopters of the revised requirements in New Zealand and internationally. There are illustrative examples in ISA (NZ) 700 (Revised) that illustrate the mandatory requirements for different entities. The IAASB has also prepared Illustrative Key Audit Matters to illustrate how the concept of KAM may be applied.

The changes also apply to auditors' reports of registered charities. The NZAuASB has illustrated the application of the revised requirements for tier 3 not-for-profit public benefit entities in supplementary illustrative reports in EG Au9.1. These auditors' reports illustrate the new reporting requirements where service performance information is within the scope of the audit.

11.Can the auditor's report refer to both the ISAs and the ISAs (NZ)?

The ISAs (NZ) adopt and have been revised to incorporate the revisions to the International Standards on Auditing (ISAs). Very few compelling reason amendments have been made to ISAs (NZ). Any differences to the international standards are summarised at the back of each ISA (NZ). Of the few changes made, none of the changes:

- conflict with the international requirements;
- would lead the auditor to form a different opinion or not include an EOM or OM as required by the ISAs;

In addition, the ISAs (NZ) include all of the elements required by ISA 700 (Revised).

The ISAs (NZ) require that the auditor's report identify that the audit was conducted in accordance with the ISAs (NZ).

The auditor may wish to, and is permitted but not required by the ISAs and the ISAs (NZ) to, refer to both the ISAs and the ISAs (NZ).

Key Audit Matters

2.Are all significant risks considered to be KAM?

ISA (NZ) 701 explains that areas of significant management judgement and significant unusual transactions may often be identified as significant risks and significant risks are often areas that require significant auditor attention.

However it is not intended that all significant risks or all matters communicated to those charged with governance will be KAMs. E.g., the ISAs (NZ) stipulate that the risk of management override of controls and the risk of fraud in the recognition of revenue are significant risks. It is however not intended that these are KAMs unless the auditor determines that they are of most significance to the audit.

3.Can a KAM only relate to a matter disclosed in the financial statements?

A KAM may be a matter relevant to the audit that is not required to be disclosed in the financial statements under accounting standards or the applicable regulatory or legal framework. E.g., the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If a matter giving rise to a KAM has not been disclosed in the financial statements but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users, noting that this information has not been audited.

4.How many KAMs must be reported?

There is no specific guidance on how many KAMs should be communicated. 'Early adopter' reports issued to date in New Zealand, contained between 1 and 5 KAMs with an average of around 3 KAMs. For audits of more complex entities it may be appropriate to have more KAMs than for a non-complex entity. Other matters that may impact the number of KAMs communicated are the nature of an entity's business and environment. The intention however, is to communicate the areas of most significance in the audit and a long list of matters may detract from this.

13.Is there any impact on the KAM previously communicated in the auditor's report in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under ISA (NZ) 560, the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial statements have been issued. In this circumstance, ISA (NZ) 560 requires that an Emphasis of Matter (EOM) paragraph or Other Matter (OM) paragraph may be included in the new or amended auditor's report that refers to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

In circumstances where the auditor reissues a new auditor's report, the auditor would need to determine (i) whether the matter that has resulted in a new or amended auditor's report is an additional KAM that should be communicated, or (ii) if it relates to a matter previously communicated as a KAM, whether any revisions to the description of the KAM are necessary. It is unlikely that other matters previously communicated as a KAM would be affected since, at the time of the previous auditor's report, such matters were considered to be matters of most significance in the audit.

When an EOM or OM paragraph is required to be included in accordance with ISA (NZ) 560 and the matter is also determined to be a KAM in accordance with ISA (NZ) 701, the auditor includes the necessary EOM or OM paragraph in the new or amended auditor's report, as well as the KAM. The KAM description is intended to provide additional information to intended users of the financial statements beyond what is included in an EOM paragraph (i.e., more than a reference to the matter being emphasized and to relevant disclosures in the financial statements). The auditor may consider cross-referencing the respective descriptions in the auditor's report to clarify that both are in respect of the same matter.

14. Should KAM be communicated in respect of each period for which the financial statements are presented when comparative financial statements are presented?

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

Nevertheless, the auditor is not precluded from communicating KAM in respect of the previous period, although in such circumstances consideration should be given to the presentation of the KAM to make sure that matters related to the current period are clearly differentiated from matters relating to the prior period.

15. Why is there a delayed mandatory application date for the reporting of Key Audit Matters for other FMC reporting entities considered to have a higher level of public accountability?

The reporting of key audit matters in the auditor's report is a significant change. The International Standards on Auditing only require the reporting of Key Audit Matters for listed entities. The IAASB is committed to considering a broader application as part of its post implementation review. The NZAuASB considers that the benefits of reporting KAM in the auditor's report apply to all FMC reporting entities considered to have a higher level of public accountability in New Zealand. Given the unique nature of the New Zealand economy, and the comparatively larger proportion of unlisted entities that have public accountability, the NZAuASB decided to mandate the reporting of KAMs for all of the most significant and publicly accountable entities in New Zealand. However, in recognition, that the requirements are new, and pose additional challenges and costs, agreed that a cautious phased approach would be appropriate, and therefore introduced a two-year transitional period. However, early adoption is permitted and encouraged.

16. How do KAMs apply to non-financial information?

The general purpose financial report of some entities (including registered charities and public sector entities) in New Zealand includes both financial and non-financial information that is subject to audit. Where service performance information is included within the scope of the audit and the auditor is required or elects to report KAM, the KAM may be in respect of the service performance information, where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

17.Where the auditor is required to express an audit opinion on the separate financial statements of a parent or holding company, and the auditor is required to communicate KAM, is the auditor also required to communicate KAM in respect of the separate financ

ISA (NZ) 701 indicates that the standard applies to audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability. ISA (NZ) 700 (Revised) states "the requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements".

Accordingly, the determination of whether the communication of KAM is required in the separate parent or holding company financial statements (hereinafter referred to as separate financial statements) depends on whether the separate financial statements are viewed as a complete set of general purpose financial statements under the requirements of the applicable financial reporting framework.

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

In New Zealand, the requirement to prepare financial statements for both the parent and the group was removed when the Financial Reporting Act 2013 was enacted. There are still limited instances where parent and group financial statements are prepared.

There are a variety of possible scenarios regarding the presentation of the consolidated and separate financial statements and the related auditor's report, with resulting implications for how KAM are communicated and presented in these circumstances. For example, the consolidated and separate financial statements could be presented in completely separate annual reports, presented as discrete financial statements in a single document (e.g., in separate sections of a single annual report), or presented combined in a single annual report (also known as a four-column format).

In circumstances where the KAM address both the audit of the consolidated financial statements and the separate financial statements in an auditor's report, the KAM should clearly explain how they relate to each audit. In some cases, the KAM might affect the audit of the financial statements of the separated and consolidated financial statements in different ways. For example, a matter relating to goodwill impairment in the consolidated financial statements might be different from the goodwill impairment in the separate financial statements (e.g., it is more likely that the impairment in the separate financial statements may relate to the valuation of the underlying investment).

If the financial statements are presented in a single document (columnar format) because the auditor in this case would likely issue a single auditor's report addressing both the consolidated and separate financial statements, the single report would include KAM relating to the audits of both sets of financial statements. This could be presented in a variety of ways, for example:

- Indicating for each KAM how it applies to each audit, i.e., the audit of the consolidated and separate financial statements
- Presenting the KAM for the consolidated financial statements in one section, and those for the separate financial statements in another section (the auditor could cross-refer to the related KAM in the respective sections if the auditor believes it appropriate to do so).

Other Information

2.When is the auditor's report required to include an Other Information section?

The requirements of ISA (NZ) 720 (Revised) apply to all audits when other information is presented in an annual report (as defined). The auditor's responsibilities with respect to other information are described in Q28 and apply regardless of when the other information is received. The requirement to include a section on Other Information in the auditor's report however differs according to the type of entity and whether the information is available at the date of the auditor's report as follows:

Status of the other information received	**FMC reporting entities considered to have a higher level of public accountability**	**Other entities (Not a FMC reporting entity considered to have a higher level of public accountability)**
The auditor has received some or all of the other information at the date of the auditor's report	√ Identify information obtained prior to the date of the auditor's report	√
The auditor has not received any other information at the date of the auditor's report but expects to receive this information at a later date	√ Identify information not yet obtained but expected to be obtained after the date of the auditor's report	Voluntary reporting If no information has been received, the auditor's report is not required to include an Other Information section

It is not uncommon for an entity to prepare its full annual report after the audit opinion on the financial statements have been signed by the auditor. In this scenario the auditor's report for a FMC reporting entity considered to have a higher level of public accountability details the other information which is expected to be received after the date of the auditor's report.

Auditors should discuss their responsibility for other information with those charged with governance as early as possible, to ensure they are aware of the additional detail that will be provided in the auditor's report if the other information is not available to the auditor before the date the audit report is signed.

When some of the other information will not be available until after the date of the auditor's report, the auditor is required to request a representation from management/those charged with governance that the final version of the documents will be provided to the auditor when available and prior to its issuance by the entity.

Audit documentation includes details of the procedures performed and the final version of the other information.

3.What is reported in the Other Information section?

When the auditor is required to include an Other Information section, in all cases this section must include:

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

Where some or all of the other information has been received at the date of the auditor's report, the auditor's report:

- Identifies the other information that has been received; and
- In respect of this other information already received:
  - A statement that the auditor has nothing to report; or
  - A statement that describes the uncorrected material misstatement of the other information.

For FMC reporting entities considered to have a higher level of public accountability, the other information section is required to identify the other information that is expected but has not been received at the date of the auditor's report.

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

In certain circumstances under ISA (NZ) 560, the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial statements have been issued. How this impacts the auditor's consideration of the other information depends on the circumstances and whether or not the auditor restricts the audit procedures for subsequent events to the amendment of the financial statements. For example:

1. The auditor does not restrict the audit procedures on subsequent events to the amendment of the financial statements.

   Paragraph 15(c)(i) of ISA (NZ) 560 indicates that the auditor shall extend the audit procedures as indicated in paragraphs 6 and 7 of ISA (NZ) 560. This includes performing audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statement and the auditor's report that required adjustment of, or disclosure in, the financial statements have been identified. Accordingly, in such a case, the auditor would be expected to consider any impact on the auditor's procedures in relation to other information arising from the subsequent event, including whether further work is necessary on other information that was obtained prior to the date of the auditor's original report, particularly when management intends to amend other information previously issued. The auditor's report would need to be updated, as appropriate, to reflect other information that has now become available as at the date of the auditor's report and the auditor's conclusions thereon (i.e., nothing to report / material misstatement) and for FMC reporting entities considered to have a higher level of public accountability, any further other information that may not have previously been identified, which the auditor still expects to obtain.

   The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of ISA (NZ) 720 (Revised).

2. The auditor restricts the audit procedures on subsequent events to the amendment of the financial statements (including the situation that is sometimes referred to as "dual-dating" the auditor's report).

   Paragraph 12 of ISA (NZ) 560 permits the auditor to restrict the audit procedures on subsequent events to the amendment to the financial statements in certain circumstances. In such a case, the auditor's report indicates that the procedures were restricted solely to that amendment (either by amending the existing auditor's report or providing a new or amended auditor's report). Where the amendment impacts the other information, the auditor would need to also perform the necessary procedures in relation to the other information, specific to the amendment. In such a case, the auditor may need to indicate this in the auditor's report as part of the procedures performed on the amendment, particularly if management intends to amend other information previously issued. Furthermore, the auditor would identify the other information affected by the amendment and the auditor's conclusions thereon (i.e., nothing to report / material misstatement). However, if the other information was unaffected by the amendment, the auditor would make no further amendments to the auditor's report in respect of other information.

The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of ISA (NZ) 720 (Revised).

APPENDIX 4

AUDITOR REPORTING FAQS – RELEASE 3

QUESTIONS FOR AUASB CONSIDERATION

FAQs requested by the Australian Public Policy Committee Audit Quality Working Group.

Does the AUASB agree that the AUASB Technical Group should provide answers to these questions?

13. **ASA 701: When a client becomes listed after year end date, but before audit report date, are KAMs communicated?**

14. **ASA 701: Given the Corporations Act refers to the Directors having responsibility for the preparation of the financial report, should KAMs avoid the term 'management' when discussing origination of estimates etc? [Note on a Big 4 call I was on the other day, some firms do seem to be avoiding the term, and generically referring to 'The Group' or something similar]**

15. **ASA 701: What is the interpretation of 'current period' for application in para 10? For instance, where a type 2 subsequent event is identified, are KAMs communicated / included?**

16. **ASA 700 & 570: Where a client prepares their financial report on a basis other than going concern, how should the going concern responsibilities in the standard wording in the Directors & auditors responsibilities of the audit report be revised, if at all?**

17. **ASA 805 & 700: Illustration 2 is arguable slightly confusing as to whether going concern assessment is needed (and therefore whether the Directors & Auditors responsibilities should include the going concern responsibilities). I think if we add that the cash basis of accounting is used, the illustration remains accurate. However at the moment the use of 'cash basis' is ambiguous as to whether it is really getting at cash in cash out (no residual obligation to distribute/accrue leftover cash) presentation of the Statement. If it is cash in cash out, there is an argument that teams would not consider going concern as there is no intent in the Statement that 'continuity of business' (going concern) is relevant.**

18. **ASRE2410 & ASA 570: Do AUASB consider it acceptable to use MURGC language instead of EOM language in a half year review, despite the ASRE 2410 not yet updated?**

19. **ASRE 2410: Do AUASB consider it acceptable to reorder review reports consistent with ASA 700 revisions to ordering of the audit report?**

20. **ASA 720 Illustration 2A OI section: additional guidance on using the wording in square brackets. There appears to be no ASA requirement or guidance paras to anchor the wording/intent to…and the ** footnote is odd (how would you know you have a material misstatement in info you haven't yet received at audit report date?)**

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