

## AUASB Bulletin - Auditor Reporting

### Purpose of the Bulletin

The purpose of this Bulletin is to provide auditors with information relevant to auditor reporting under the following Auditing Standards issued in December 2015:

- ASA 700 *Forming an Opinion and Reporting on a Financial Report*; and
- ASA 701 *Communicating Key Audit Matter in an Auditor's Report*.

These standards are operative for financial reporting periods ending on or after 15 December 2016.

### Background

In December 2015, the AUASB issued a number of revisions and other changes to the Australian Auditing Standards to align with the enhancements to auditor reporting made to the equivalent International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

The overall objective of the improvements to auditor reporting is to respond to calls for auditors to provide more relevant information to users based on the audit that was performed. Accordingly, the new requirements are aimed at enhancing the informational value of the auditor's report.

### ASA 700 Forming and Opinion and Reporting on a Financial Report

The revised ASA 700 requires a description of the auditor's responsibilities for the audit of the financial report. The standard allows this to be included by a specific reference within the auditor's report to the location of such a description on the AUASB website. When the auditor wishes to refer to the AUASB website, the specific webpage link is to be included in the auditor's report.

Auditors referring to the auditor's responsibilities on the AUASB website should use the links in the table below depending on the specific circumstances of the engagement. The links in the table align with the 4 illustrative example auditor's reports found in the appendix to ASA 700 (issued December 2015). Refer to Appendix 1 for a demonstration of how the auditor would refer to the auditor's responsibilities located on the AUASB website.

Example	Type of Entity [applicable to the auditor's report]	AUASB Website Links
1	Single Company - <i>Corporations Act 2001</i> [Listed. Fair Presentation]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
2	Group Entity - <i>Corporations Act 2001</i> [Listed. Fair Presentation]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
3	Single Entity [Not listed. Fair Presentation]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
4	Single Entity. [Not listed. Compliance]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
5	Single Entity (other than a company) [Listed. Fair Presentation]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
6	Group Entity (other than a company) [Listed. Fair Presentation]	<a href="http://www.auasb.gov.au/Home.aspx">http://www.auasb.gov.au/Home.aspx</a>
Note: When the auditor disclaims an audit opinion, the auditor's responsibilities are described in the auditor's report and are <i>not</i> referred to as being located on the AUASB website [Ref: ASA 705, paragraph 29 and A26]		

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

### Application of ASA 701

ASA 701 is a new auditing standard that introduces requirements and guidance for auditors to include information on key audit matters in their reports on the audits of general purpose financial reports of listed entities. When the auditor decides to do so, key audit matters may be included in the auditor's report of other entities. The key audit matter enhancements provide users of the auditor's report with information on matters of most significance to the auditor.

The auditor exercises professional judgement when making determinations about:

Whether the report is a general purpose report:

- The auditor needs to establish that the auditor's report relates to a general purpose financial report. Reference to the Australian Accounting Standards and the guidance in Appendix 2 of ASA 210 *Agreeing the Terms of Audit Engagements*, provide the necessary information for the auditor to conclude on the nature of the financial report.
- A relevant criterion, spelled out in the appendix to ASA 210, is that the accounting conventions applied in a general purpose financial report exhibit attributes normally exhibited by acceptable financial reporting frameworks, such as providing information necessary to meet the common financial information needs of a wide range of users in making economic decisions.
- The auditor needs to determine whether applicable laws or regulations governing the preparation of the relevant financial report, are intended to result in a general purpose financial report.

The "listed" status of the entity:

- The definition of the term "listed entity" is included in the Auditing Standards (ASQC 1 and ASA 200). The definition mirrors the ISA definition. In Australia, there are situations that may present difficulties in determining whether or not the audited entity falls within the definition of "listed entity" and therefore whether ASA 701 is to be applied.
- The Auditing Standards<sup>1</sup> include a definition of "listed entity", which is identical to that contained in the equivalent ISAs, namely:

*Listed entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.*

- The second part of the definition should be read as the entity's *shares, stock or debt* are marketed under the regulations of a recognised stock exchange or other equivalent body.

When either the financial report or the entity does not fall clearly within the definitions, the auditor exercises professional judgement in deciding whether to communicate KAM. In doing so, the auditor considers the intention of ASA 701 which is expressed in paragraph 2 of the standard:

*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)

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<sup>1</sup> Auditing Standard 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*; and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

## Determining Key Audit Matters

ASA 701 provides extensive guidance in support of the requirements to communicate key audit matters. The requirements are implemented through a logical approach that uses criteria to identify and to select those key audit matters that are to be communicated in the auditor's report. ASA 701, paragraph 8, defines key audit matters as:

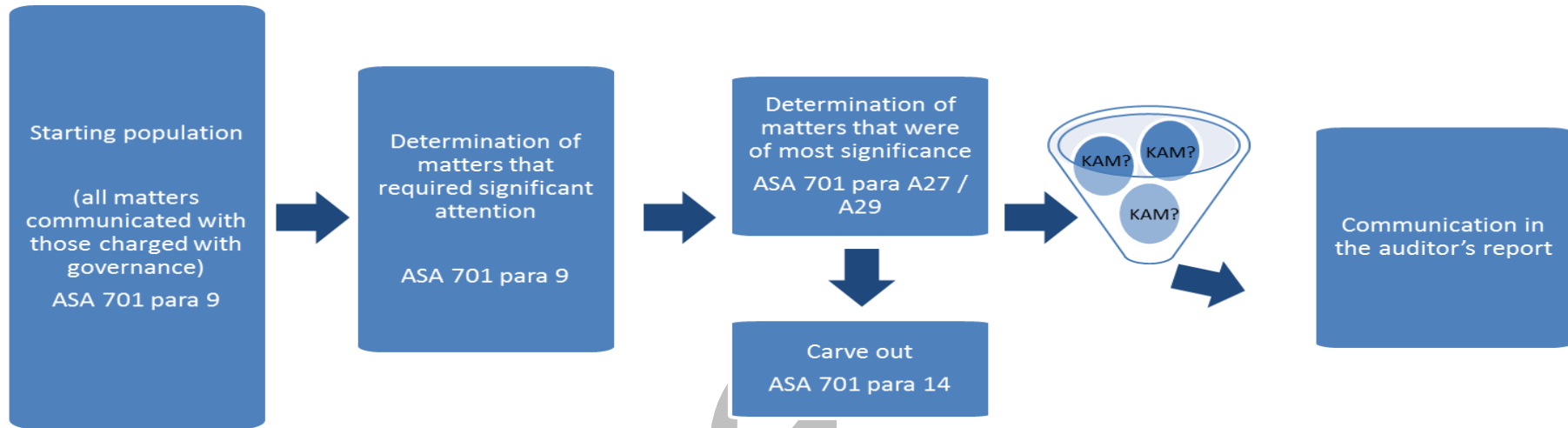
*Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Key audit matters are selected from matters communicated with those charged with governance.*

Key audit matters should be specific to the entity and the audit that was performed in order to provide relevant and meaningful information to users. Therefore, ASA 701 includes a judgment-based decision-making framework to help auditors determine which matters, from those communicated with those charged with governance, are key audit matters. This decision-making framework was developed to focus auditors on areas about which investors and other users have expressed interest – in particular, areas of the financial statements that involved the most significant or complex judgments by management and areas of auditor focus in accordance with the risk-based approach in the ASAs.

The number of key audit matters that will be communicated in the auditor's report may be affected by the complexity of the entity, the nature of the entity's business and environment, and the facts and circumstances of the audit engagement. It is envisaged that there will be at least one key audit matter for an audit of a listed entity.

Note: In deciding whether to communicate a matter, the auditor may consider using an Other Matter paragraph under ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. Such paragraphs are permitted when the auditor decides to communicate a matter that is, in the auditor's judgement, relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

In order to assist auditors with this new process, the AUASB has developed a high level schematic that depicts the sequential flow of procedures and the essential considerations that the auditor needs to address in determining key audit matters to be communicated.



- Areas of higher assessed risk
- Significant auditor judgements
- Significant events/transactions

- Nature and extent of communications with TCWG
- Importance to users' understanding of the financial report
- Nature of underlying accounting policy, complexity or subjectivity
- Nature and materiality of corrected and uncorrected misstatements
- Nature and extent of audit effort
- Nature and severity of difficulties in applying audit procedures
- Severity of control weaknesses

- Carve out is in rare or exceptional circumstances
- Laws or regulations preclude disclosure
  - Adverse consequences to the entity or the public reasonably expected to outweigh public interest benefit
  - Management's views on why the matter had not been publicly disclosed
  - Relevant ethical requirements

- Reference to (any) related disclosures
- Why the matter is considered to be one of the most significance
- How the matter was addressed in the audit

## Appendix 1

### **HOW THE AUDITOR'S REPORT FOR A SINGLE LISTED COMPANY WOULD REFER TO THE AUDITOR'S RESPONSIBILITIES LOCATED ON THE AUASB WEBSITE**

[See Appendix to ASA 700 - [Aus] Illustration 1A—Single Company - *Corporations Act 2001*]

#### **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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report”.

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