

June 2017

# Basis for Conclusions

## *ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)*

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



**Australian Government**  
**Auditing and Assurance Standards Board**

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ISSN 2201-3628

**Basis for Conclusions ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report***

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The Basis for Conclusions ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide the background and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)*.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## **BASIS FOR CONCLUSIONS**

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

1. The Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides the background and rationale for the development and approval of the amendments to Australian Auditing Standard 701 *Communicating Key Audit Matters in the Independent Auditor's Report (Amended June 2017)* (ASA 701).

The Basis of Conclusions relates to, but does not form part of, ASA 701, and is not a substitute for reading the Standard.

#### **Scope**

2. This Basis for Conclusions applies to ASA 701.

#### **Operative Date**

3. The amended ASA 701 is operative for financial reporting periods ending on or after 15 December 2016 with immediate adoption permitted.

#### **Background**

4. The AUASB issued ASA 701 in December 2015, effective for reporting periods ending on or after 15 December 2016. Subsequent to this, the AUASB considered the application of ASA 701 and the communication of key audit matters (KAMs) to the following scenarios:
  - Auditor's reports on financial reports containing parent entity and consolidated financial statements (4 column financial reports);
  - Auditor's reports on stapled security groups and separate issuer's financial reports; and
  - Condensed Interim Financial Reports prepared under Accounting Standard AASB 134 *Interim Financial Reporting* (AASB 134).
5. After careful consideration of these issues, the AUASB issued exposure draft 07-16 Proposed Auditing Standard ASA 2016-2 *Amendments to Australian Auditing Standards* (ED 07-16), to gather stakeholder feedback on proposed amendments to ASA 701 to clarify that:
  - For consolidated and parent entity financial statements, KAMs are required to be communicated for the consolidated financial report as a whole, and the auditor may elect to communicate KAMs for the parent entity.
  - For a stapled security group, KAMs are required to be communicated for the stapled group financial report as a whole, and the auditor may elect to communicate KAMs for the separate stapled issuer.
  - KAMs are not required to be communicated on audited condensed Interim Financial Reports prepared under AASB 134.

#### **Major Issues raised by Stakeholders on Exposure and the AUASB's Response**

6. The AUASB received comments from 9 stakeholders and the following summarises the matters raised on the proposed amendments included in ED 07-16 and how these have been addressed by the AUASB.

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7. When considering feedback from respondents, the AUASB focused on the principles in International Standards on Auditing 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (ISA 701), which are that a key audit matter is required to be communicated in auditor's reports when an entity:
  - (a) Has prepared a complete set of general purpose financial statements; and
  - (b) Is a listed entity.
8. When determining how the principles detailed above apply in the scenarios outlined in paragraph 6, the AUASB considered stakeholder feedback detailed below, consulted further with stakeholders and considered all relevant technical information.

### ***Consolidated and parent financial reports***

9. Most respondents to ED 07-16 were in favour of the proposed amendment to ASA 701 for this matter, except for one respondent who raised a concern that the proposed amendments were not consistent with ISA 701.
10. The AUASB concluded that when parent entity financial statements are general purpose financial statements, prepared in accordance with the Australian Accounting Standards, and this is described as such in the basis of preparation note and the director's declaration, and the auditor is providing an opinion on the parent entity, the auditor is required to communicate KAMs specific for the parent entity in accordance with ASA 701.
11. At its meeting on 26 April 2017, the AUASB voted not to amend ASA 701 as proposed in ED 07-16, and to release a frequently asked question (FAQ) on this matter.

### ***Stapled security groups***

12. Most respondents to ED 07-16 were in favour of the proposed amendment to ASA 701 for this matter, however two respondents commented that KAMs should be reported for all general purpose financial reports of listed entities, including each stapled issuer, and that the proposed amendments were not consistent with ISA 701.
13. In its deliberations the AUASB discussed:
  - 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 ASIC Class Order 2015/838<sup>1</sup>.
  - A 'listed' entity is defined in the Auditing Standards as 'an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body'<sup>2</sup>.
  - There is only one quotation which is the stapled group. While the public can see only one listing on the ASX official list which is that of the stapled group, our consultations with the ASX advised that as each stapled issuer is a legal entity, they are admitted to official list, to enable them to be stapled and traded. Accordingly, there may be a view that stapled issuers meet the Auditing Standard's definition of 'listed'.
  - Further supporting this is that when investing in a stapled group, investors receive shares in each of the underlying stapled issuers in equal proportion.

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<sup>1</sup> ASIC Corporations (Stapled Group Reports) Instrument 2015/838

<sup>2</sup> ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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- There is a view that KAMs should not be communicated and are not meaningful for the stapled issuer because the stapled group is, in substance, the listed entity as this is the entity that is traded and individual stapled issuers cannot be traded separately.
14. Following feedback from stakeholders on the exposure draft and continued deliberations and consultation with stakeholders, the AUASB voted not to amend ASA 701 as proposed in ED 07-16.
15. The AUASB Technical Group will continue to research and engage with stakeholders in relation to this matter.

### ***Condensed financial reports***

16. Most respondents to ED 07-16 were in favour of amending ASA 701 for this matter, however one respondent did not support this amendment as in their view, if a company elects to have an audit performed in lieu of a review, it is appropriate for the auditor's report to include KAMs.
17. When considering this feedback, the AUASB discussed that ISA 701 and ASA 701 are inconsistent, as under ISA 701 KAMs are not required to be communicated in auditor's reports on condensed interim financial reports, however they are required under ASA 701.
18. This inconsistency was not identified at the time of issuing ASA 701 and the AUASB did not think it was appropriate for ASA 701 to require the communicating of KAMs in the auditor's reports on condensed interim financial reports, when this was not within the scope of ISA 701.
19. Based on this the AUASB voted to amend ASA 701 to clarify that condensed interim financial reports are not within the scope of ASA 701.
20. Auditors may elect to communicate KAMs in their reports on condensed interim financial reports.

### **Conclusion**

21. In reaching its conclusions, the AUASB considered all stakeholder feedback, including the more significant issues outlined above.
22. At its meeting on 26 April 2017, the AUASB voted to approve and issue the following revision to ASA 701:

New paragraph Aus 5.1 inserted after paragraph 5 as follows:

Key audit matters are not required to be communicated in auditor's reports on condensed financial reports prepared in accordance with AASB 134 *Interim Financial Reporting*.

23. In addition the AUASB have issued Frequently Asked Question "How are KAMs communicated for parent and consolidated financial reports?" to clarify this matter.