



Attachment to Board Meeting Summary Paper

Subject: ASA 705 (Revised and Redrafted)

Prepared by: AUASB Technical Group

Date: 9 February 2009

ATTACHMENT A

Issues

The AUASB is requested to consider and resolve the following issues:

Item #	Issues	Approve? Y/N
1	<p><u>Issue:</u> Is the proposed treatment of each difference, listed in the <i>Tables of Differences</i>, appropriate?</p> <p><u>Recommendation:</u> Yes, the treatment is appropriate.</p>	
2	<p><u>Issue:</u> Long-standing conformity difference between Aust Stds and ISAs. Extant ASA para 35 addresses conflicts between applicable financial reporting standards. Appears to exist for circumstances where, for example, an entity is <i>required</i> to use accounting standards other than AASBs.</p> <p>Question is whether to retain this very specific requirement or accept that the more general Requirements in the revised Std. will suffice?</p> <p><u>Recommendation:</u> Suggest retain. Insert para as Aus 15.1 with a separate sub-heading.</p>	

3	<p><u>Issue:</u> The revised ISA uses the term “states” in a number of paragraphs referring to the required wording of the auditor’s report. In past drafting of standards, the term has been considered categorical and, when included in a legislative instrument, was to be adhered to verbatim. In addition, para 23 uses the expression: “...shall use the corresponding phrase...”</p> <p>Although common sense would not lead to a literal interpretation that the exact same words in the Requirement <i>must</i> be used in an auditor’s report, there has been a perception in some quarters, that in such instances, a potential mismatch exists between the <i>mandatory</i> Requirement and the (actual) wording used in the illustrative reports.</p> <p>[See highlighted text in paras 23, 24, 25, 26, 27 and 17.]</p> <p>The Board is asked to consider whether or not a change is necessary? If so, the following alternatives are offered for consideration:</p> <ul style="list-style-type: none"> • Change the word “states” to the word “convey”. • Insert the word “appropriately” directly following the word “states”. • Re-word the Requirement paragraph to reflect the <i>exact</i> words used in the illustrative reports. <p><u>Recommendation:</u> Do nothing at this time—on the basis that common sense will prevail and that the issue should only be re-considered if raised by a constituent, including ASIC, in responding to the EDs.</p>	
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Information

The following matters are brought to the Board’s attention for information purposes only:

Item #	Information-only Matters	Para. #
1	<p>The extant standard on modifications to the auditor’s report (ASA 701) has been re-structured into 2 new standards—ASA 705 (R&R) (modifications to the opinion) and ASA 706 (R&R) (emphasis of matter (EOM) and other matters (OM)).</p> <p>ASA 705 (R&R) maintains the fundamental concepts of the extant standard, namely:</p> <ol style="list-style-type: none"> a. 3 types of modified opinion—qualification, adverse and disclaimer; and b. The auditor’s judgment about the pervasiveness of the effects or possible effects of the matter on the financial report. 	—
2	<p>The main driver, and consequently the format, of the revised Std [ASA 705 (R&R)] has changed so as to focus on “evidence” and the lack thereof.</p> <p>This is demonstrated by the new objective paragraph (para 4), the first</p>	4, 6 and A2-A12

Item #	Information-only Matters	Para. #
	Requirement (para 6) and eleven paras of comprehensive guidance (paras A2 to A12). Notwithstanding this change in focus, the underlying principles around evidence and modifications to the opinion have not changed.	
3	The proposed changes to the Application paragraph will be discussed at Agenda Item 13(a) [ASA 200].	Aus 0.1 (a) and (b)
4	No change has been made to modify the illustrative auditor's reports to corporations' law format. The focus of the examples is to illustrate the Requirements regarding <i>modifications</i> . It is considered unnecessary to overlay the unmodified corporations' law format which is presented in 2 examples in the appendices of ASA 700 (R&R).	Appendices
5	Requirements and/or Guidance paragraphs in Extant ASA which contained references to Australian ethical body, which have not been retained are listed	None
6	Paragraphs that contain "management" or "those charged with governance" references, which have been amended	None

Conforming Amendments

Item #	ASA (Revised & Redrafted)	Proposed Amendments	Approve? Y/N
1	<i>ASA 100 Preamble</i>	None noted at this point	
2	<i>Assurance Framework</i>	None noted at this point	
3	<i>Glossary</i>	ASA 705 (Revised and Redrafted) includes definitions at para 5 which will have to be included in the Glossary.	
4	<i>Foreword</i>	None noted at this point. However, a number of generic changes will have to be made to the <i>Foreword</i> , in due course, that will cover all standards including ASA 705	

Item #	ASA (Revised & Redrafted)	Proposed Amendments	Approve? Y/N
5	<i>Other</i>	There are no conforming amendments required to other standards as a result of ASA 705.	

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