



Attachment to Board Meeting Summary Paper

Subject: ASA 706 (Revised and Redrafted)

Prepared by: AUASB Technical Group

Date: 10 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>Issues:</u></p> <ul style="list-style-type: none">• Para. A9 introduces a new element. Where a financial report has been prepared for a specific purpose using a general purpose framework, the auditor may consider it necessary to include an “Other Matter” paragraph restricting the distribution or use of the <i>auditor’s report</i>.• Appendix 1 is a list of standards requiring an EOM paragraph. A new concept, originating from ASA 800 para 14, has been introduced. The auditor is required to include an EOM alerting users that the financial report is prepared in accordance with a special purpose framework and accordingly may not be suitable for other purposes. [Previously, such alert was contained in the scope section of the auditor’s report]. <p>These changes will need to be emphasised to Australian practitioners.</p> <p><u>Recommendations:</u></p> <ol style="list-style-type: none">a. Include in the separate document <i>Explanatory Guide to ASA Reporting Standards</i>, accompanying the exposure drafts, under the section heading “Main Changes from Extant Standards”.b. Include in the Tables of Changes attached to the ED (both ASA 706	

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	<p>and ASA 800).</p> <p>c. Include in the AUASB website. A suggestion from the AUASB consultative meeting (Dec 08) was for a list of all the major changes arising from the ASAs revision/redrafting exercise to be made available on the AUASB website.</p> <p>d. Include in the joint professional bodies' information sessions.</p>	
3	<p><u>Issue:</u> The <i>Corporations Act 2001</i> includes a specific requirement at sec. 308(3B) for the auditor to express an opinion on any <i>additional</i> information included in the financial report so as to achieve fair presentation. The current audit requirements are contained in extant ASA 701 paras 34 and 15 and are fundamental to the definition of a fair presentation framework.</p> <p>The revised and redrafted standard should include this requirement as an Aus insert (ISA +). The extant paras 34 includes a conditional requirement to issue a qualified opinion. However, ASA 706 (R&R) does not relate to modifications to the opinion and accordingly it is suggested extant paras 15 and 34 are amalgamated and re-worded so as to cover only the EOM aspect.</p> <p>See Tables of Changes pages 9-11 (Agenda Item 12(c).4). [See also extant ASA 701 paras 15 & 34]</p> <p><u>Recommendations:</u> Include, as ISA + “Aus” inserts, in the revised and redrafted standard:</p> <ul style="list-style-type: none"> • the re-worded Requirement paragraph [para: Aus 7.1]; • the guidance paragraph [para: Aus A4.1]; and • an illustrative auditor’s report [Appendix 3, illustration 2]. 	

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>	—
2	<p>The extant standard prescribes the circumstances under which an EOM is required. The extant standard does not prohibit the use of an EOM in other circumstances.</p>	

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	<p>ASA 706 (R&R) is less explicit in this area and introduces the concept of the auditor determining what is fundamental or relevant to users' understanding.</p> <p><i>“If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial report that, in the auditor’s judgment, is of such importance that it is <u>fundamental</u> to users’ understanding of the financial report, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report...”</i></p> <p><i>“If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial report that, in the auditor’s judgment, is <u>relevant to users’</u> understanding of the audit, the auditor’s responsibilities or the auditor’s report...”</i></p>	<p>6</p> <p>8</p>
3	<p>ASA 706 (R&R) introduces a new Requirement and guidance on “Other Matter Paragraphs”. These paragraphs are used to draw users’ attention to matters other than those presented/disclosed in the financial report.</p> <p>[Note: OMs are <i>not</i> other reporting responsibilities under the heading “Report on Other Legal and Regulatory Requirements”—these are dealt with in ASA 700 (R&R)]</p>	8
4	<p>Unlike the extant, the new ASA 706 (R&R) does not prescribe the circumstances under which an EOM paragraph is required.</p> <p>Instead, <u>Appendix 1</u> lists the ASAs and relevant paragraphs within those standards, where the auditor is <i>required</i> to include an EOM paragraph. <u>Appendix 2</u> lists the ASAs and relevant paragraphs within those standards, where the auditor is <i>required</i> to include an OM paragraph.</p>	Appendices 1 and 2
5	The proposed changes to the Application paragraph will be discussed at Agenda Item 13(a) [ASA 200].	Aus 0.1 (a) and (b)
6	Requirements and/or Guidance paragraphs in Extant ASA which contained references to Australian ethical body, which have not been retained are listed	None
7	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 706 (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 706	
5	<i>Other</i>	There are no conforming amendments required to other standards as a result of ASA 706.	