

The Chairman
Auditing and Assurance Standards Board
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30 June 2015

Dear Ms Kelsall

Exposure Drafts ED 01/15 Reporting on Audited Financial Reports – New and Revised Auditor Reporting Standards and Related Confirming Amendments

Ernst & Young Australia welcomes the opportunity to offer its views on the exposure draft *Reporting on Audited Financial Reports - New and Revised Auditor Reporting Standards ad Related Conforming Amendments*, issued by the Auditing and Assurance Standards Board (AUASB).

We strongly support the approach and direction the AUASB has taken in adopting the proposed standard on reporting on audited financial statements and believe the changes will provide meaningful enhancements to, and increase the relevance of, the auditor's report. Enhancing the auditor's report should contribute to the ongoing relevance of the financial statement audit and to serving the public interest. Furthermore, given the increasingly globalised world in which we operate, we believe our assurance standards should be as consistent as possible with their international equivalents.

The communication of Key Audit Matters (KAMs) in the auditor's report should contribute to enhancing its informational value to all users by highlighting matters that were of most significance to the audit of the financial statements. Communicating such matters may also assist users in understanding the areas of significant management judgment and draw users' attention to management's disclosures of those matters.

We believe the proposed restructuring of the auditor's report, with the required headings and elements as well as the auditor's opinion prominent at the beginning of the auditor's report, is a significant enhancement, and helps to address the views expressed by investors and other users that consistency and comparability in auditors' reports are important features in auditor reporting. Retention of the "pass/fail" opinion provides users with a concise conclusion as to whether the financial statements, taken as a whole, are presented fairly in accordance with the applicable financial reporting framework, and the increased prominence of this opinion provides improved context for the users of the financial statements as they read the remainder of the auditor's report.

Our responses to the questions that the AUASB is especially interested in are outlined in Section 1; our responses to the common questions to all proposed standards are outlined in Section 2 and our responses to the specific questions under each individual proposed standard are outlined in Section 3.

1. Our views on the AUASB's Specific Questions in relation to ED 01/15

What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standards? If significant costs are expected, the AUASB would like to understand:

- (i) *Where those costs are likely to occur;*
- (ii) *The estimated extent of costs, in percentage terms; and*
- (iii) *Whether expected costs outweigh the benefits to the users of audit services?*

In our view, there will be additional costs, in particular relating to the preparation and review of the Key Audit Matters to be included in the new audit report. The amount of these costs will vary significantly from engagement to engagement, although common across engagements will be an increase in senior executive review time that may be reflected in increased audit fees.

The benefits from the proposed standards cannot be measured in financial terms. Regarding the proposed changes to the audit report, we believe the result will be greater transparency over the audit process which we welcome.

Whether, in the future, ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report should be mandated in the audit of entities in addition to listed entities; and if so:

- (i) *Which entities; and*
- (ii) *What criteria should be used to identify such entities?*

We believe that in the foreseeable future this should be limited to listed entities and reconsidered after some years of experience with the new report and after considering any future direction taken by the IAASB on this matter.

Whether the name of the engagement partner should be disclosed only when required by law or regulations; or for all engagements?

We think it is acceptable for all engagements to disclose the name of the engagement partner as this would make it clear in all instances who is responsible for the audit.

Whether the removal of (only) "Aus" paragraph references to the Corporations Act 2001—currently included within the requirements and application and other explanatory material—supported?

If removal of existing references is not supported, respondents are asked to indicate their preference for locating the re-instated material within the standard:

- *In the requirements and application and other explanatory material (as applicable) of the proposed standard; or*
- *By inclusion of a cross-referenced listing in an appendix to the standard?*

Our preference is that "Aus" paragraph references to the Corporations Act 2001 stay in to provide additional guidance.

2. Questions common to all proposed standards

Have applicable laws and regulations been appropriately addressed in the proposed standards?

Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standards, or may conflict with the proposed standards?

To the best of our knowledge, all applicable laws and regulations have been appropriately addressed in the proposed standards. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standards, or may conflict with the proposed standards.

Are there any other significant public interest matters that constituents wish to raise?

In our view, there are no other significant public interest matters to raise.

3. Responses to the individual proposed standards

ASA 700

Is there support for permitting the auditor to choose whether to locate the auditor's responsibilities section in either the body of the auditor's report or in an accompanying appendix to the auditor's report?

We support the permission to have a choice as we believe locating the auditor's responsibilities in an appendix may result in a more streamlined audit report that will notify users of the key outputs of the audit with greater clarity.

ASA 570

Do respondents support the retention of the "relevant period" concept set out in paragraph Aus 13.2, which extends the auditor's going concern assessment period beyond the financial report's balance date to that of the expected date of the auditor's report?

We do not support the retention of the "relevant period" concept set out in paragraph Aus 13.2 as this in some instances extends the auditor's going concern assessment period beyond management's own going concern assessment period. Furthermore, we believe in the principle of harmonisation with International Auditing Standards and do not see a strong enough argument to diverge from IAS 570 which states 'that the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period'.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency on such services in Australia. We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact myself on (03 8650 7637).

Yours sincerely



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Ernst & Young