

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

Objective of paper:

To consider if key audit matters (KAMs) are required to be communicated in the auditor's report on a half year financial report.

Issue and background

The AUASB identified that there was an inconsistency between ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* and the ASA as follows:

- ISA 701 paragraph 5 (application paragraph) uses the term “complete set of general purpose financial statements”
- ASA 701 paragraph 5 (application paragraph) uses the term “general purpose financial reports”

This impacts the communication of KAMs on audited condensed Interim Financial Reports prepared under AASB 134, and was not considered at the time of issuing ASA 701.

Consistent with our strategic mandate the ASA should reflect the ISA and changes are only made after passing a “compelling reason” test. This difference was not identified at the time of issuing ASA 701 and no compelling reason assessment was performed

Relevant technical background

- ASA 700 *Forming an Opinion and Reporting on a Financial Report* paragraph 30, requires the communication of KAMs for audits of financial reports of listed entities.
- ASA 701 paragraph 5 states that KAMs are required to be communicated in the auditor's report of general purpose financial reports of listed entities.
- The *Corporations Act 2001*:
 - s 302 requires listed entities to prepare half year financial reports and elect to have them audited or reviewed. In practice, the majority of listed entities elect to have a review, however audits do occur in limited circumstances.
 - s 303 dictates the content of the financial report and requires the half year financial report to be in compliance with Australian Accounting Standards.
- AASB 134 *Interim Financial Reporting*
 - prescribes the minimum content of a general purpose interim (including a half year) financial report and applies to entities required to prepare a half year financial report in accordance with the *Corporations Act 2001*.
 - Paragraph 8 allows entities to prepare either a complete or condensed set of financial statements, both of which are general purpose financial reports.
 - A condensed half year / interim financial report do not include full disclosure as required for an annual financial report, and accordingly the condensed financial report is read in conjunction with the latest annual financial report.
- AASB 134 clearly distinguishes between a complete half year / interim financial report and a condensed half year / interim financial report. This has also been confirmed by the AASB.

Therefore ISA 701 and ASA 701 are inconsistent as under ISA 701 KAMs are not communicated in auditor's reports on condensed interim financial reports, however they are under ASA 701.

Conclusions and recommendation

1. Is there a compelling reason for the difference between ISA and ASA 701?

The majority of entities elect to prepare a condensed financial report and for the auditor to perform a review instead of an audit. Audits are not common, but can occur. If an entity elects to have their condensed financial report audited, is the communication of KAMs beneficial / appropriate?

Whilst it is arguable that there is benefit to users in communicating KAMs, the users can refer to the auditor's report on the annual financial report. Also the description of KAMs is likely to be problematic as there is unlikely to be disclosure on the matter in the financial report.

Also note that ISA (NZ) 701 is consistent with ISA 701, and therefore the ASA wording is not in accordance with the AUASB's strategy of harmonization of AU and NZ standards.

Therefore the AUASB technical staff have concluded that ASA 701 is amended to be consistent with ISA 701. Feedback will be requested from constituents in ED 07-16.