



Australian Government
Auditing and Assurance
Standards Board

AUASB Bulletin

Communicating Key Audit Matters for Stapled Security Groups

May 2017

Introduction

This publication aims to communicate the matters auditors need to consider when deliberating on how Key Audit Matters (KAMs) should be identified and communicated in the auditor's report for:

- a stapled security group
- individual entities within a stapled security group.

How should stapled security groups communicate KAMs?

ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* requires KAMs be communicated for entities which:

- prepare general purpose financial reports; and
- are listed entities.

The AUASB has considered how KAMs are communicated for stapled security groups, with different views on this issue have been expressed by AUASB members and constituents.

Consequently the AUASB has (to date) been unable to reach consensus on what changes, if any, are required to auditing standards or what additional guidance may be necessary to address this issue.

This *AUASB Bulletin* has been produced to assist auditors and assurance practitioners address this issue under existing pronouncements. It does not constitute an authoritative pronouncement of the AUASB, nor does it amend or override the Australian Standards on Auditing (ASAs).

This publication does not intend to be exhaustive and reading this publication is not a substitute for reading the ASAs.

Background

Stapled security groups are:

- a group of entities which are stapled issuers
- other entities controlled by the stapled issuers.

A stapled issuer is an entity which:

- has issued equity instruments that are stapled to the equity instrument of another legal entity or entities
- forms and is quoted as a single saleable security which cannot be traded separately.

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.

If each issuer is considered to be a listed entity, ASA 701 requires the auditor's report to include communication of KAMs.

Are stapled issuers 'listed' entities?

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'¹.

There is only one quotation which is the stapled group. While the public can see only one listing on the ASX official list however, each stapled issuer is admitted to the 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'.

There is an alternate 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; individual stapled issuers cannot be traded separately.

At its meeting on 29 November 2016, the AUASB approved the issuance of a exposure draft 07-16 proposing to amend the scope paragraph of ASA 701 to clarify that KAMs are required to be communicated at the stapled group level and that auditors use professional judgement when deciding whether to communicate KAMs specifically for the general purpose financial report of the separate stapled issuer.

The purpose of this exposure draft was to seek input from stakeholders on this matter.

Summary of AUASB deliberations on this issue

At the time of this publication, following feedback from the exposure draft and continued deliberations and consultation with stakeholders, the AUASB did not obtain the required number of member votes to amend ASA 701 and to scope out stapled issuers from the application of ASA 701.

In its deliberations the AUASB considered auditor's reports of stapled security groups and individual entities within a stapled security group released during the recent December 2016 reporting season. It noted that KAMs had been communicated in different ways for stapled security groups by either including KAMs for:

- the stapled security group as a whole

¹ ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.

- each individual entity within the stapled security group
- both the stapled security group as a whole and for individual entities within the stapled security group.

Guidance for auditors

Based on the scope, requirements and application guidance contained within ASA 701, when communicating KAMs for stapled issuers the auditor should consider the following matters:

- KAMs are required to be identified and communicated in the auditor's report of general purpose financial reports of all listed entities.
- If the stapled issuer and the stapled group financial reports are presented together as allowed by ASIC Class Order 2015/838, the KAM section in the auditor's report details which entity each KAM relates to.
- Whether the communication of KAMs for stapled issuers may be misleading or confusing to users.
- A KAM may be relevant to both the stapled issuer, and the stapled group. For example an investment property in the stapled issuer may be treated as property plant and equipment in the stapled group. In this scenario the KAM description includes how the matter was addressed in each audit.
- Where the auditor has determined that it is appropriate to communicate a KAM for a stapled issuer but in the auditor's judgement the stapled issuer has limited operations there are no KAMs, the auditor documents their rationale, and communicates in the auditor's report as follows:

Key Audit Matters

We have determined there are no Key Audit Matters to communicate in our report for the stapled issuer (name of the entity).

- ASA 701, paragraph 14 allows the auditor to not communicate matters identified as KAMs, if in the auditor's judgement, there are adverse consequences that outweigh the public interest benefit of providing greater transparency. The auditor must document their rationale for such determination.

Next steps

While currently the AUASB has concluded that ASA 701 will not be amended, AUASB technical staff will continue to engage with stakeholders and review current practice relating to this issue during the June 2017 reporting season.

This matter will be raised as an issue for consideration with other International Auditing and Assurance Standard Setters (including the International Auditing and Assurance Standards Board) and reconsidered based on feedback from stakeholders during the Enhanced Auditor Reporting Post-implementation Review Project, currently scheduled to commence later in the 2017/18 year.

Feedback welcome

Queries or feedback are welcomed and should be directed to enquiries@auasb.gov.au or by telephone +61 3 8080 7445.