

Explanatory Statement

ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Issued by the Auditing and Assurance Standards Board

Draft

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Australian Government

Auditing and Assurance Standards Board

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Reasons for Issuing Auditing Standard ASA 706

The AUASB issues Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* issued by the International Auditing and Assurance Standard Board.

Purpose of Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

The purpose of the Auditing Standard represents the Australian equivalent of revised ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (January 2015) and replaces the current ASA 706 issued by the AUASB in October 2009 (as amended).

Main Features

This Auditing Standard contains differences from the revised ISA 706, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

The revision of ASA 706 reflects the enhancements to auditor reporting developed by the International Auditing and Assurance Standards Board. The improvements include:

- Consequential alignment with the requirements and guidance contained within the revised Auditing Standard, ASA 700 *Forming an Opinion and Reporting on a Financial Report*;
- Amendments to the illustrative auditor's reports, contained within the appendices
- The relationship between key audit matters (KAM) and any additional communication in the auditor's report [i.e. an Emphasis of Matter paragraph (EOM), and an Other Matter paragraph (OM)];
- A requirement to include the term "Emphasis of Matter" in the heading when an EOM paragraph is included in the auditor's report; and
- Guidance where a matter is determined to be a KAM but may also be, in the auditor's judgement, fundamental to users' understanding of the financial report.

Operative Date

ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* is operative for financial reporting periods ending on or after 15 December 2016.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 01/15 Proposed Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* was issued on 30 April 2015 with a 60 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A Regulatory Impact Statement Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 706

The purpose of ASA 706 is to conform with the equivalent revised international standard on auditing, ISA 706; and to replace the pre-existing auditing standard.

Main Features

The revision of ASA 706 reflects the enhancements to auditor reporting developed by the International Auditing and Assurance Standards Board. The improvements include:

- Consequential alignment with the requirements and guidance contained within the revised Auditing Standard, ASA 700 *Forming an Opinion and Reporting on a Financial Report*;
- Amendments to the illustrative auditor's reports.
- The relationship between key audit matters (KAM) and any additional communication in the auditor's report
- Guidance where a matter is determined to be a KAM but may also be, in the auditor's judgement, fundamental to users' understanding of the financial report.

Human Rights Implications

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues due to the nature and content of the revised auditing standard.