

The Institute of Public Accountants
**Submission to AUASB: Exposure Draft on
Reporting on Audited Financial Reports**

June 2015



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS[®]

29 June 2015

The Chairperson
Auditing and Assurance Standards Board
Level 7
600 Bourke Street
Melbourne, Victoria 3000
Australia

Dear Madam

Exposure Draft: Reporting on Audited Financial Reports – New and Revised Auditor Reporting Standards and Related Conforming Amendments

Thank you for the opportunity to comment on the proposed amendments to ED 01/15 “Reporting on Audited Financial Reports – New and Revised Auditor Reporting Standards and Related Conforming Amendments” comprising:

1. Proposed Auditing Standard ASA 701 “Communicating Key Audit Matters in the Independent Auditor’s Report”
2. Amendments to ASA 700 “Forming an Opinion and Reporting on a Financial Report”
3. Amendments to ASA 705 “Modifications to the Opinion in the Independent Auditor’s Report”
4. Amendment to ASA 706 “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”
5. Amendments to ASA 570 “Going Concern”
6. Amendments to ASA 260 “Communication with Those Charged With Governance”, and
7. Proposed Auditing Standards ASA 2015-1 “Amendments to Australian Standards”.

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice.

Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

While the IPA supports the need to ensure audit and the audit report is relevant in the 21st century, the IPA has reservations that the proposals included in ASA 701 do not meet that objective.

The IPA believes the ASA 701 proposals are unlikely to provide much in the way of information to users of the financial report. Based on review of a selected number of UK audit reports, the IPA has found the overall thrust of similar changes in the UK has been focussed on the audit process. While such disclosure provides some insights into the audit of the entities and associated audit risks and

the audit firm's response, the IPA remains unconvinced such information is useful to the user of the financial report.

The IPA believes the proposed changes as reflected in ASA 701 represent a missed opportunity to realign the audit report to meeting financial report user needs. Rather ASA 701 is likely to lead to internally focussed disclosures about the audit process and not address information users may really want to obtain from auditors – some form of direct reporting. The IPA believes the audit standard-setters need to address the usefulness of an audit of financial information based solely on an attestation model and whether users' needs would be better met by incorporating some measure of direct reporting.

Notwithstanding the above comments as these proposals have been adopted internationally, Australia has little alternative but to accept them as part of its decision to implement internationally accepted auditing standards. In such circumstances, it is necessary to consider to which audits the changes should apply.

The IPA believes that entities which have similar characteristics as listed entities, in the interests of application neutrality, should be required to adopt the revised audit reporting framework. In the IPA's opinion, this would include disclosing entities under the Corporations Act; and APRA related entities such as ADIs, Superannuation Funds, and General and Life Insurance companies. The IPA believes the AUASB should undertake an assessment of the application of the audit report changes to the audit of public sector entities.

The IPA recommends that the AUASB consider a revision to GS 010 "Responding to Questions at an Annual General Meeting" as the new pronouncements may result in new types of queries at AGMs.

The IPA would like to express its disappointment at the due process the AUASB has managed in relation to these changes. The IPA believes the proposed changes should have been exposed by the AUASB at the international exposure draft stage, not at the current stage. Not to do so disenfranchises smaller firms, which are not part of large international networks, and results in the changes as being a fait accompli for such firms.

Our comments on the detailed questions asked in the Exposure Draft are in the attached appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagraca@aol.com), or Mr Colin Parker (colin@gaap.com.au), GAAP Consulting.

Yours faithfully



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Appendix

Question – Applicable Auditing Standards ASAs 700, 701, 705, 706, 570, 260, 2015-1

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?*

IPA Response

The IPA does not expect for the larger entities and larger firms that the proposed changes will result in material additional costs. The IPA believes the content of most KAM disclosures is likely to follow the content that many of the larger firms use for current communication with Audit Committees and Those Charged with Governance (TCWG). However, smaller entities and smaller firms do not often have the same format in relation to communication with Audit Committees and TCWG and, therefore, the IPA expects such entities will bear a disproportionate cost for the additional reporting given the relative size of the audit fees for such entities. The IPA has some concern as the ability of firms to recover these costs in such circumstances and is concerned with the possible impact on audit quality on already tight audit fees.

The IPA is not in a position to estimate any additional costs.

Question – Applicable Auditing Standards ASAs 700, 701, 705, 706, 570, 260, 2015-1

Have applicable law and regulations been appropriately addressed in the proposed standard?

IPA Response

The IPA is unaware of any applicable laws or regulations that have not been addressed by the proposed amendments. However, if the application of the standard is to be extended beyond listed companies operating under the Companies Act, further amendments may be required.

Question – ASAs 700, 701, 705, 706, 570, 260, 2015-1

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

IPA Response

The IPA is unaware of any laws or regulations that may prevent or impede the application of the proposed amendments. However, if the application of the standard is to be extended beyond listed companies operating under the Companies Act, further amendments may be required and consideration of the impact on prescribed reporting formats may be required e.g. APRA approved audit reporting format.

Question – Applicable Auditing Standard ASA 701

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

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

IPA Response

The IPA is of the opinion that ASA 701 should apply not only to listed entities, but other entities that receive investment funds from the public or act in a fiduciary capacity in regard to funds received. These would include APRA regulated entities such as ADIs, Superannuation Entities, and General and Life Insurance entities. The scope should be extended to the audit of disclosing entities and MIS Schemes and AFS Licence holders that hold client monies. Any entity about to list should be required to have a KAM section in the audit report as required by listed entities.

In addition, the IPA is of the view the AUASB should consider the application of ASA 701 to audit reports in the Not-for-Profit and Public Sectors where there is a compelling case for transparency in relation to taxpayer funding or fiduciary duty relating to donated monies.

Question – Applicable Auditing Standard ASA 700

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

IPA Response

The IPA believes there should be consistent application of the disclosure of the engagement name and is of the opinion the disclosure supports accountability.

Question – Applicable Auditing Standards ASA 700, 705, 706, 570, 260, AASB 2015-1

Whether the removal of (only) “Aus” paragraph references to the “Corporations Act – 2001” – currently included with the requirements and application and other explanatory material – supported?

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

IPA Response

The IPA does not support the removal of the “Aus” paragraphs. The IPA would prefer the status quo to remain.

Furthermore, the IPA believes the removal of “Aus” paragraphs disadvantages smaller firms without technical functions available to issue guidance and templates reflecting Corporations Act implications in relation to International Auditing Standards.

Question – Applicable Auditing 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 reports or in an accompanying appendix to the auditor’s report?

IPA Response

The IPA supports allowing the flexibility in locating the auditor’s responsibility section of the audit report.

Question – Applicable Auditing Standards ASA 570

Do respondents support the retention 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?

IPA Response

The IPA strongly supports the retention of the “relevant period” concept as it aligns the assessment period with the date of the opinion.