



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 27 February 2012

Subject: Amendments to ASA 510 and ASA 705 (“Split Opinions”)

Date Prepared: 8 February 2012

Action Required

For Information Purposes Only

Agenda Item Objectives

To conclude on whether to amend the guidance material in ASA 510 *Initial Audit Engagements – Opening Balances* and ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report* regarding “split opinions”.

Background

Background details per BMSPs dated 25 July 2011, 12 September 2011 and 28 November 2011.

At the November 2011 meeting, the AUASB considered a letter from ASIC and concluded that further discussions with AISC were necessary. Two firms subsequently supplied copies of actual “split opinion” audit reports to the AUASB Technical Group in support of the argument for “split opinions”. The example reports were in respect of financial reports prepared in accordance with the *Corporations Act 2001*.

The AUASB Technical Group has prepared a technical analysis of the issue, including commentary on the copy reports provided by the two firms. [See Agenda Item 6.1]

The AUASB Technical Group have discussed the matter further with a senior ASIC representative who continues to support the view expressed in the ASIC letter of 24 October 2011.

Matters to Consider

The Board is requested to consider the detailed technical analysis attached as Agenda Item 6.1 and conclude on the specific questions listed on pages 3 and 4.

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AUASB Technical Group Recommendations

1. The guidance material in ISA 510 and ISA 705 is not introduced into the equivalent Australian Auditing Standards.

These recommendations are based primarily on the following:

- (a) A “split opinion” format does not provide any additional information to the user than that found in a “single form” opinion.

In ISA 510, Illustration 1 (single form) and Illustration 2 (“split), the wording used in the Basis for Qualified Opinion paragraph is identical. The only difference between the two illustrative reports is that the first comprises one opinion paragraph and the other comprises two opinion paragraphs. Both forms have identical meaning, cover the same essential requirements and neither one provides information that is additional to the other one except that the “split” version aligns the qualification with the P&L account only, whereas the single form opinion is a qualification applicable to the entire financial report.

- (b) A “split opinion” format comprising a *disclaimer* over the results of operations and an unmodified opinion over the financial position, is contrary to the definitions in ASA 705 – a disclaimer is required when the matter is “pervasive” to the financial report.
- (c) The attached analysis [Agenda Item 6.1] identifies a number of issues which individually and collectively, detract from the quality (clarity) of an auditor’s report comprising “split opinions”.
- (d) There is no support from ASIC.

2. An Explanatory Guide (preferably) or a Guidance Statement should be developed to provide application guidance to practitioners on the various considerations necessary for quality reporting. Such guidance is necessary to promote consist reporting which, seemingly, is a practical application issue.

Material Presented

Agenda Item 6 AUASB Board Meeting Summary Paper

Agenda Item 6.1 “Split Opinions” Technical Analysis

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Conclude deliberations on “split opinions”	Board decision	AUASB	27 February 2012	o/s

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