



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10**

Meeting Date: 12 June 2019

Subject: Auditor implications arising from AASB ED's on Removal of Special Purpose Financial Statements

Date Prepared: 29 May 2019

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Action Required

For Information Purposes Only

Agenda Item Objectives

1. To update the AUASB on the AASB's Conceptual Framework project and to discuss any actions for the AUASB including the implications for the AUASB framework and auditors.

Background

2. At its meeting on 21 February 2019 the AASB decided to proceed with its proposal to remove the ability of for-profit private sector entities to publicly lodge special purpose financial statements (SPFS). The decision was reached after considering the results of its consultation paper, AASB Research Report based on commissioned academic research, user and preparer surveys, and feedback from regulators.
3. To do this the AASB will amend a range of AASB standards to remove the ability for for-profit private sector entities to self-assess their reporting entity status and prepare SPFS. All such entities will be required to prepare some form of general purpose financial statements. The Exposure Draft of this amendment (ED 1) is expected to be released for consultation in August 2019 and the standard to be issued by the end of the 2019 and effective for reporting periods beginning on or after 1 July 2020.
4. ED 1 will propose:
 - (a) to remove the ability to prepare SPFS for for-profit private sector entities which publicly lodge financial statements (with exceptions for some entities with non-legislative requirements to apply accounting standards, eg trusts);

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- (b) Transitional provisions to allow entities preparing GPFS under tier 2 for the first time need not restate its comparative information. Instead of full comparative information, the entities would provide the following information:
- (i) present two statements of financial position in accordance with Australian Accounting Standards (AAS), as at:
 - the beginning of the reporting period; and
 - the reporting date.
 - (ii) disclose its last SPFS statement of financial position as at the comparative period reporting date in the notes, with a description of the adjustments made for the statement of financial position at the beginning of the reporting period to be AAS compliant.
 - (iii) present two statements of profit or loss and other comprehensive income with the comparative periods as presented in its last SPFS (ie. not necessarily AAS compliant), but labelled clearly where the information is not AAS compliant.
5. As part of removing the ability to prepare SPFS, the AASB will also issue a second (but related) ED (ED 2), proposing to replace the existing Tier 2 Reduced Disclosure Requirements framework with a framework that will still require compliance with all recognition and measurement (R & M) requirements in AAS, including consolidation and equity accounting, but have further reductions in disclosures. ED 2 will be issued in July / August 2019 and effective for reporting periods beginning on or after 1 July 2020.
6. As the removal of SPFSs will not be effective for another 2 reporting periods, as an interim measure to improve consistency and comparability of SPFSs, at its meeting on 30 April 2019 the AASB decided to issue an ED (ED 3), proposing for-profit entities and not-for-profit entities within the scope of AASB 1054 *Australian Additional Disclosures* that prepare SPFS to disclose:
- (a) the basis on which the decision was made to prepare SPFS;
 - (b) whether they have subsidiaries and prepared consolidated financial statements, and if not consolidated, why not;
 - (c) where those financial statements consolidate subsidiaries, whether they have investments in an associate or a joint venture, and whether they have been accounted for in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*;
 - (d) whether the entity has or has not complied with all recognition and measurement (R & M) requirements of Australian Accounting Standards in preparing the SPFS; and
 - (e) if the entity did not comply with all of the R & M requirements, an indication of where they do not comply.
7. Compliance with R & M is not a current requirement of the AASs. ASIC's [Regulatory guide 85 Reporting requirements for non-reporting entities](#) says ASIC expects compliance with recognition and measurement however this is not a legislative requirement. ED 3 will not require entities to change their accounting policies, but to state whether or not their policies comply with all the R & M requirements in AASs.
8. ED 3 will be issued shortly (by the end of June) with a 45 day comment period, and is proposed to be effective for reporting periods ending on or after 30 June 2020. Entities affected are those lodging reports with ASIC, or required by the ACNC or other legislation to comply with AASB 1054.

Findings from the AASB Research Report

9. The AASB commissioned academics to conduct a review of SPFS to gather information to inform them on the impact of the removal of SPFS. This research also looked at compliance with R & M requirements of the AASs.
10. At the time of finalising this paper the AASB Research Report had not been issued however the results were final and identified the following:
 - (a) 33.6% of SPFS for the for-profit entities did not state whether they were in compliance with recognition and measurement requirements of the AASs or not;
 - (b) 10% of SPFS do not comply with R & M;
 - (c) 14% of SPFS was unclear if they comply with R & M or not; and
 - (d) instances* where the financial reporting framework was not clearly stated and described in the financial report. This is a consistent finding with the Not-for-profit sector research – refer agenda item 10.
11. The AASB research also found that most of the entities not stating compliance with R & M were audited by non-big 4 firms.

Actions for the AUASB?

12. The AUASB Technical Group (ATG) considered the research conducted by the AASB and the EDs, to identify any actions for the AUASB including any changes required to the Australian Auditing Standards and whether guidance is required to assist auditors.

Does AASB research provides evidence of non-compliance by auditors with Auditing Standards requirements?

13. The relevant Auditing Standards requirements:
 - (a) *ASA 210 Agreeing the Terms of Audit Engagements* paragraph 6 requires the auditor to determine whether the financial reporting framework is acceptable before accepting the engagement.
 - (b) *ASA 700 Forming an Opinion and Reporting on a Financial report*
 - (i) requires the auditor to conclude on whether the financial report is prepared..... in accordance with the applicable financial reporting framework (paragraph 12);
 - (ii) requires the auditor to evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework (paragraph 15).
 - (c) *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Financial Frameworks* requires the auditor to comply with ASA 700, and in addition to the requirements of ASA 700:

* Actual % not able to be determined

- (i) obtain an understanding of the purpose of the financial report, the intended users, and the steps undertaken by management to determine that the applicable financial reporting framework is acceptable (paragraph 8);
- (ii) evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework (paragraph 12);
- (iii) the auditor's report shall describe the purpose for which the financial report is prepared and, if necessary, the intended users, or refer to a note in the SPFR where that contains that information (paragraph 13);
- (iv) where management has a choice of framework, the explanation of management's responsibility will include reference to its responsibility to determine the applicable financial reporting framework is acceptable in the circumstances (paragraph 13);
- (v) alert users via an Emphasis of Matter in the auditor's report that it is a SPFR (paragraph 14); and
- (vi) the auditor's opinion refers to compliance with the AASs to the extent described in the basis of preparation in the financial report.

14. ATG Conclusion:

- (a) The acceptability of the financial reporting framework (ASA 210) – Compliance with R & M is the expectation of ASIC however is not a current requirement of the AASs. Therefore a financial reporting framework which is not in compliance with R & M or does not state whether they are in compliance, is acceptable. Also ASA 800 requires the auditor to understand the steps undertaken by management to determine the framework is acceptable, then ensure the financial report has been prepared in accordance with the financial reporting framework described in the financial report. The AASB research does not provide any evidence ASA 210 and 800 have not been complied with by auditors.
- (b) The financial reports where the financial reporting framework was not clearly stated and described is evidence of non-compliance with ASA 700 paragraph 15. This is consistent with findings in the Not-for-profit sector (agenda item 9) – refer below.

Impact of the EDs on the Auditing Standards

- 15. The removal of SPFS will require an amendment to ASA 800 to remove references to the *Corporations Act 2001* (Aus 6.1) and a relevant illustrative example. This will be amended in 2020. ASA 800 will still be required for financial reports using Special Purpose Frameworks for other purposes ie. not public lodgement.
- 16. ED 2 and 3 will not have an impact on the Auditing Standards.

Impact on audit practice and is guidance required to assist auditors with implementation?

- 17. The impact on auditor will depend on the current level of compliance with the AAS, and will be different for each set of current SPFS.
- 18. ED 1 and 2 - Auditors will be required to audit the GPFR, transitional adjustments and disclosures.
- 19. ED 3 - Auditors will need to ensure that the new requirements are disclosed in the financial report including the statement of (or not) compliance with R & M is included in the financial report, and that they agree with this disclosure.
- 20. Based on the AASB Research Report and the ATG discussions with practitioners, this will impact non-big 4 auditors / smaller audit firms who are auditing SPFS currently not stating compliance or

are not in compliance with R & M. These auditors will have to assess this statement and if they agree with this. This will result in more work for the auditors.

21. Communicating the new requirements to preparers of financial reports and auditors is important and will require communications from the AUASB, the AASB and the Professional Bodies.
22. The AUASB's communications will include advising auditors of the new requirements, encouraging communication with clients early to assess the impact on their financial report, and to plan for any additional time required to audit the transitional adjustments.
23. ATG Conclusion
To address the issue discussed in paragraph 14 (b) and the findings from the Not-for-profit sector (agenda item 9) the ATG propose to issue an AUASB bulletin to remind auditors of this requirement. This Bulletin will also communicate the impact of the AASB's EDs.

Question for the AUASB

24. Do you agree with the ATG's conclusions about the impact of the AASB's EDs and actions proposed?
25. Is there anything else the AUASB can do to assist auditors in relation to these changes?

Part B – NZAuASB

26. This is an Australian specific matter.

Material Presented

Agenda Item

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Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.			AUASB	12 June 2019	
