



The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne VIC 8007

Our ref ED Submission Other Information

Contact Juliet Low (02) 9295 3881

Cc: edcomments@auasb.gov.au

10 August 2015

Dear Sirs

**AUASB Exposure Draft, The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments**

We are pleased to have the opportunity to respond to Exposure Draft 02/15, *The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments* (the exposure draft) issued by the Australian Auditing and Assurance Standards Board (AUASB). This letter represents the views of KPMG Australia.

**Overarching comments**

Overall, KPMG Australia supports the initiatives to enhance the credibility and transparency of financial statements through specifying appropriate responsibilities of the auditor related to Other Information, in particular as part of the enhanced auditor reporting project and alignment with standards issued by the International Auditing and Assurance Standards Board (IAASB).

However, we would like to bring to your attention our views on the following matters:

***Application of the proposed standard ASA 720***

We would like the Board to consider the applicability of the proposed standard.

We are concerned that extending the requirement for an Other Information section beyond listed entities may have very little incremental benefit for the user.

Additionally, we note that the standard applies not only to financial reports but that paragraph Aus 0.2, further extends the applicability of the standard to other historical financial information.

We see limited incremental benefit in relation to applicability to non-statutory financial statements, special purpose financial statements, and other historical financial information.

We would like the Board to consider whether there are further scenarios that should be explicitly excluded in addition to those listed in paragraph 7.

***Reporting decision tree for Other Information ([Aus] Appendix 2)***

We agree that the inclusion of a decision tree would help users of proposed standard ASA 720 to determine the circumstances in which an Other Information section is required in the auditor's report and what is required to be reported. However, we found the decision tree to be inconsistent with our interpretation of the standard. We would like the AUASB to consider revising the decision tree to achieve consistency with the standard.

For example:

- For a listed entity, where the auditor has not obtained some or all of the final version of the Other Information, the decision tree leads you to a conclusion that an Other Information section in the auditor's report is not required. However our interpretation of para 21 would lead us to the conclusion that an Other Information section is required. This outcome in the decision tree is also inconsistent with the example auditor's report – [Aus] Illustration 4A.
- Where the auditor has obtained some or all of the final version of the Other Information it is not clear what is the intent of the two scenarios i.e. What question would lead you to follow each path?
- In the scenario where Other Information is obtained it states that for any type of entity the description of the Other Information section should include identification of information expected to be obtained. However our interpretation of the standard is that this would not be required to be included for a non-listed entity.

***Example wording in Illustrations***

Throughout the illustrations we noted that the word "conclude" or "concluded" is used. Whilst we acknowledge that the performance requirements of the standard require the auditor to conclude we consider using the word "conclude(d)" in the auditor's report to provide an opinion about the Other Information. We note that paragraph 22(3)(ii) of the standard requires the auditor to *describe* the uncorrected material misstatement of the Other Information. It does not require the auditor to state that they "concluded".

We propose the following wording using illustration 5A as an example:

*If, based on the work we have performed, we ~~conclude~~ consider that there is a material misstatement of this other information, we are required to ~~report that fact~~ describe the material misstatement. As described below, we have concluded that such a material misstatement of the other information exists.*



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AUASB Exposure Draft, The Auditor's  
Responsibilities Relating to Other Information and  
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Accordingly we report on the following material misstatement.[... description of material misstatement]

Appendix 1 to this letter contains our responses to the specific questions raised in the explanatory memorandum that accompanies the exposure draft.

Please contact me on (02) 9295 3881 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

Juliet Low

*Partner*

***Appendix 1 – KPMG responses to the specific questions listed in the AUASB Exposure Drafts***

*1 Have applicable laws and regulations been appropriately addressed in the proposed standard?*

Yes, we consider the applicable laws and regulations have been appropriately addressed in the proposed standard. Refer commentary in relation to removal of Aus paragraphs to the *Corporations Act 2001* below.

*2 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?*

No, we are not aware of any laws or regulations that may prevent or impede application of the proposed standard or may conflict with the proposed standard.

*3 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 standard? If significant costs are expected, the AUASB would like to understand:*

- Where those costs are likely to occur;*
- The estimated extent of costs, in percentage terms; and*
- Whether expected costs outweigh the benefits to the users of audit services?*

We have concern that the new reporting requirements included in paragraphs 21 and 22 of the proposed standard ASA 720 will provide only marginal value to users of the auditor's report. For example, in relation to listed entities:

- when the auditor has obtained all other information and where there is no material inconsistency at the time that the auditor's report is issued; and
- when the auditor has not obtained all other information at the time that the auditor's report is issued, but this information is included in the final published "glossy accounts". In this instance, the auditor's report would identify a list of information expected to be obtained after the date of the auditor's report, implying to a reader that the auditor had not read it, when in fact that information would both be included in the glossy accounts and would have been read by the auditor prior to their publication (as it is usually the case that we proof read the glossy accounts prior to publication).

However, we do not anticipate any significant incremental costs to auditors and the business community arising from compliance with the main changes to the requirements of the proposed standards where material inconsistencies are not identified in Other Information.

Marginal additional costs are expected in:

- drafting the Other Information section required in the audit report of listed entities and conditionally for entities other than listed entities;
- updating templates e.g. for representation letters and engagement contracts;
- educating management and those charged with governance as to the changes;
- training and coaching auditors to apply the changes in requirements; and
- documenting the procedures performed, in particular in circumstances after the date of the auditor's report and assembly of the audit documentation.

4 *Whether the removal of (only) "Aus" paragraph references to the Corporations Act 2001 and non-Corporations Act 2001 references — currently included within the requirements and application and other explanatory material—supported?*

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

Consistent with our response to Australian exposure draft 01/15, we acknowledge the proposal to remove Aus paragraph references to the Corporations Act 2001 (and in addition non-Corporations Act 2001) would improve alignment to the international standard. However, we do not support the proposal on the basis that these requirements still apply and include useful reminders and practical guidance for the practitioner in specific or unusual situations.

Our preference for locating the re-instated material is as per current status, i.e, within the standard alongside the context specific auditing standard requirement.

5 *Is there any perceived practical difficulty in identifying the entity's other information (as defined in paragraph 12, with guidance provided in paragraphs A1-A5 of the Auditing Standard)?*

We do not expect practical difficulty in identifying other information included in the annual report of a listed entity. The contents of a listed entity's annual report is often known and easily identifiable. Minimum contents of the annual report are also defined by the requirements of the *Corporations Act 2001* and Australian Securities Exchange (ASX) listing rules.

The definitions in paragraph 12 along with guidance paragraphs A1-A5 are sufficient to enable the auditor to practically identify an entity's other information.

However, even if other information is appropriately identified, actually obtaining the information from the entity prior to publication may be more logistically problematic.

- 6 *Where the auditor has concluded a material misstatement exists in the other information obtained after the auditor's report date, would additional guidance, to paragraphs A49-A50, be helpful related to requirement paragraph 19(b) in respect of any legal or regulatory obligations the auditor should consider in circumstances? If guidance is considered helpful, what content and form do respondents consider it should take.*

We believe there is sufficient guidance in paragraphs A49-A50 to enable the auditor to address paragraph 19(b) in the proposed ASA 720. However, additional guidance is welcomed in the form of guidance ("A") paragraphs for this higher risk scenario, or in a separate publication e.g. guidance statement.

- 7 *Do respondents see any issues with the proposed differential reporting requirement contained in paragraph 21 for "listed" versus "other than listed" entities, in terms of its potential to cause confusion and/or create an expectation gap in terms of what, and when, the other information section is to be included in the auditor's report?*

Yes, we believe that the proposed differential reporting requirements may create an expectation gap in terms of what is communicated in the auditor's report in the Other Information section. However, on the basis that we have evaluated this information is likely to be of minimal incremental value to users of the annual report (refer "Overarching comments" and our response to question 3 above), the impact is expected to be relatively minor.

We recommend that the Board considers a post implementation review if it is considered necessary to revisit whether there is an expectation gap and whether there is any additional benefit in aligning with the requirements applicable to listed entities.

- 8 *Are there any other significant public interest matters that constituents wish to raise?*

No, there are no other significant public interest matters we wish to raise.