

ISA 720 Issues – identification of matters for the AUASB to consider

Introduction:

Table 1, Table 2 and Table 3 are intended to be ongoing works in progress designed to facilitate:

- (a) The capture of issues raised by the AUASB, the NZAuASB, the AUASB/NZAuASB technical staff and constituents in Australia and New Zealand, for the purpose of developing the Australian Exposure Drafts;
- (b) The disposition of all issues raised, **including transfer to the “compelling reasons” process**; and
- (c) Timely communication with the NZAuASB and the NZAuASB technical staff in accordance with the AUASB/NZAuASB Communication Protocols.

**Table 1: Issues arising from the IAASB Standard ISA 720
[as considered and resolved at 20 April 2015 meeting]**

Para. Ref	ISSUE	COMMENTS	AUASB’s DISPOSITION
3 (Effective date)	No specific reference to early adoption.	<u>Suggestion</u> : Allow early adoption to align with other related auditor reporting standards with the same application date. All IAASB’s standards are permitted to be adopted early unless specifically prohibited. This point is clearly made in IAASB Agenda paper 2-4 (September 2014) on Auditor Reporting.	No specific reference is required.
7 (Scope)	This ISA does not apply to: (a) Preliminary announcements of financial information; or (b) Securities offering documents, including prospectuses.	Previously the ISA included within the scope “securities offerings” (refer extant paragraph 2.) however the IAASB considered that this was no longer appropriate. Accordingly, <u>suggest</u> do not amend scope.	Agreed - do not amend
12 (a) (Definition)	Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the	New definition included in ISA limits other information to that included in an “annual report”. It could be interpreted to include “analyst/investor briefings” type documents. The ISA is silent on this in the related guidance at paragraph A5. <u>Suggest</u> do not amend “annual report”	Agreed - do not amend

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	<p>entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.</p> <p>(Ref: Para. A1–A5)</p>	<p>definition. Instead, suggest clarifying the status of “analyst/investor briefings” in guidance at paragraph A5. Refer paragraph A5 (below) for discussion and suggested resolution.</p>	
<p>12(c) (Definition)</p>	<p>Other information – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A8–A10)</p>	<p>Previously the ISA included a wider range of documents that could be incorporated within the “other information” definition (extant other definition at paragraph 5(a) – “any document containing an audited financial report and the auditor's report thereon”.)</p> <p>The ISA now limits “other information” to that contained in an annual report (see paragraph 12(a))</p> <p><u>Suggest do not amend</u> “other information” definition.</p>	<p>Agreed - do not amend</p>
<p>13 (Planning)</p>	<p>The auditor shall: (Ref: Para. A8–A18)</p> <p>(a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);</p> <p>(b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, <u>the final version of the document(s)</u> comprising the annual report; and</p> <p>(c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final</p>	<p>Sub-paragraph (b) (underlined text) requires the other information to be the “final version of the annual report”. Related guidance at paragraph A12 indicates that this is the version that has been approved by those charged with governance for issuance.</p> <p>The AUASB (and NZAuASB) raised this definition as a concern with the IAASB through the exposure draft process given that in Australia and NZ, it is understood that few entities have this version of the annual report ready and available to the auditor's prior to signing date. The IAASB concluded in finalising the ISA that only the “final version of the document” was appropriate as anything less was subject to change and auditors should only report on the final version.</p>	<p>Agreed - do not amend</p>

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	<p>version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this ISA. (Ref: Para. A19)</p>	<p>This requirement, when read in conjunction with the ISA exception-based reporting requirements in paragraphs 21 and 22, means:</p> <ul style="list-style-type: none"> • for non-listed entities, no inclusion of a other information section in the auditor's report; and • for listed entities, the inclusion of a other information section in the auditor's report that would merely state that the auditor expects to receive the other information (annual report) after the signing date. <p><u>Suggest</u> no change to this requirement given the IAASB's stated intent of the other information to be the final version. Instead, suggest a change to the actual reporting requirements in paragraphs 21 and 22 (see below).</p>	
<p>14 & 15 (Work effort)</p>	<p>Paragraph 14: The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)</p> <p>(a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (Ref: Para. A25–A29)</p> <p>(b) Consider whether there is a material inconsistency between the other information and the auditor's</p>	<p>The ISA intentionally does not make the work effort procedures prescriptive in respect of the other information, rather principles-based, allowing for auditors to use professional judgement they consider appropriate in the circumstances. Related guidance provides examples of some (but not all) of the procedures that auditors may select.</p> <p>Accordingly, <u>suggest</u> no change to these requirements.</p>	<p>Agreed - do not amend</p>

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	<p>knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)</p> <p>Paragraph 15:</p> <p>While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)</p>		
16	<p>If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether: (Ref: Para. A34–A38)</p> <p>(a) A material misstatement of the other information exists;</p> <p>(b) A material misstatement of the financial statements exists; or</p> <p>(c) The auditor's understanding of the entity and its environment needs to be updated.</p>	<p>Requirement is not specific in that it allows the auditor the choice of "if necessary perform other procedures", rather than requiring other procedures actually be performed. Given the standard is to be a legislative instrument, suggest that this be amended to clarify that the auditor is required to perform other procedures, as follows:</p> <p><i>"If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures <u>considered appropriate in the auditor's professional judgement to determine whether:</u></i> (Ref: Para. A34–A38) ...</p> <p><u>Suggest</u> transfer to "compelling reasons" test.</p>	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>

Para. Ref	ISSUE	COMMENTS	AUASB's DISPOSITION
21 (Reporting)	<p>The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:</p> <p>(a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or</p> <p>(b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information.</p>	<p>The ISA requires different reporting on other information dependent on if the entity is listed (always report) or not listed (exception based reporting only), leading to differential reporting (consistent with ISA 701 KAM).</p> <p>It is understood that the NZAuASB is also considering amending this requirement to require reporting for all "FMC reporting entities considered to have higher public accountability" instead of "listed entities". Additionally "other than a FMC reporting entity considered to have a higher level of public accountability" instead of "other than listed entities".</p> <p>(1) Listed entities (21(a))</p> <p>As noted above in the comments on the paragraph 13 definition of "final version for the annual report", this version is seldom prepared by Australian listed entities and made available to auditors prior to signing the auditor's report. It is understood that this is very different from the European experience, (which the ISA assumes) where the other information is usually readily available to the auditor prior to signing the auditor's report (and hence auditors are able to read, consider and report on the other information).</p> <p>Additionally, the requirement does not allow for "some or all of the other information" only "the other information" meaning it must be <i>all</i> of the final version of the annual report, not parts (e.g. chairman's report) provided to the auditor (too hard for the auditor to identify). This is inconsistent with the wording used for "other than listed entities" in paragraph 21(b)).</p> <p>If the ISA was to be adopted as is, the majority of Australian listed entities' auditors, having not received the final version of the annual report before signing date, would include an other information section with wording to the</p>	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>

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		<p>effect that the other information is expected to be obtained after the date of the auditor's report.</p> <p><u>Suggest</u> no amendments as the auditor of a listed entity would always be required to include an other information section in the auditor's report.</p> <p>(2) Other than listed entities (21(b))</p> <p>The requirement related to other than listed entities allows for exception-based reporting in the auditor's report (i.e. that if there is no other information reporting prepared; there is no need to include an other information section at all.)</p> <p>In Australia other than listed entities (non-listed entities), may <i>not</i> necessarily prepare an annual report, hence there would never be other information reporting and users would not know from reading the auditor's report whether this was the case, or if the entity was to prepare an annual report which was provided to the auditor after the date of the auditor's report. The requirement does not deal with this scenario and it is considered in the public interest that this requirement be amended to ensure the auditor is always required to include an other information section in the auditor's report for other than listed entities. Incorporating such a requirement is consistent with the related guidance in paragraph A52.</p> <p>Additionally, to ensure consistency with the listed entity requirements in paragraph 21 (a), paragraph 21(b) should be amended to remove the "some or all" requirement and to include "expects to obtain."</p> <p>Incorporating the above suggestions, amended paragraph 21 would read as follows:</p> <p><i>"The auditor's report shall include a separate</i></p>	

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		<p><i>section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:</i></p> <p>(a) <i>For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or</i></p> <p>(b) <i>For an audit of financial statements of an entity other than a listed entity <u>either</u>:</i></p> <p>(i) <i>the auditor has obtained, <u>or expects to obtain</u>, some or all of the other information <u>or</u>;</i></p> <p>(ii) <i><u>the entity is not required to, and has elected not to, prepare the other information.</u></i></p> <p><u>Suggest</u> transfer to "compelling reasons" test.</p>	
22 (Reporting)	<p>When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)</p> <p>(a) A statement that management is responsible for the other information;</p> <p>(b) An identification of:</p> <p>(i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and</p> <p>(ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;</p> <p>(c) A statement that the auditor's opinion does not cover the other information</p>	<p>If the AUASB agrees to the changes suggested at paragraph 21 (c) above, sub-paragraph (b) would need to be consequentially amended to accommodate this as follows:</p> <p>...</p> <p>(b) "An identification of:</p> <p>(i) <i>Other information, if any, obtained by the auditor prior to the date of the auditor's report; and</i></p> <p>(ii) <i>For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;</i></p> <p>(iii) <u>For an audit of financial statements of an entity other than a listed entity:</u></p> <ul style="list-style-type: none"> • <u>other information, if any, expected to be obtained after the</u> 	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>

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	<p>and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;</p> <p>(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and</p> <p>(e) When other information has been obtained prior to the date of the auditor's report, either:</p> <p>(i) A statement that the auditor has nothing to report; or</p> <p>(ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.</p>	<p><i>date of the auditor's report; or</i></p> <ul style="list-style-type: none"> • <i>That no other information was required to be prepared, and the entity has elected not to prepare, the other information;"</i> <p>...</p> <p><u>Suggest</u> transfer to "compelling reasons test."</p>	
<p>23 (Opinion relationship)</p>	<p>When the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(d).</p>	<p>There are two issues identified with this requirement.</p> <p>(1) The requirement does not deal with situations when the auditor has not yet expressed their opinion but rather "intends to express" a qualified or adverse opinion when contemplating paragraph 22(d) implications. This could be clarified by amending the requirement as follows:</p> <p><i>When the auditor expresses, or intends to express, a qualified or adverse opinion in accordance with ISA 705 (Revised), the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22).</i></p>	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>

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		<p><u>Suggest</u> transfer to “compelling reasons” test.</p> <p>(2) The ISA does not include a requirement to deal with the impact of a disclaimer of opinion on the other information reporting. Guidance only is provided at paragraph A58.</p> <p>It is considered in the public interest given disclaimer of opinions are possible for the paragraph A58 guidance to be elevated to a requirement (located after paragraph 23) and amended (see bold) as follows:</p> <p><i><u>“If the auditor expresses, or intends to express, a disclaimer of opinion on the financial statements in accordance with ISA 705, the auditor is unable to include the paragraph 22 required statement and does not include an other information section.”</u></i></p> <p><u>Suggest</u> transfer to “compelling reasons” test.</p>	
A5 (annual report definition)	<p>An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA, include:</p> <ul style="list-style-type: none"> • Separate industry or regulatory reports (for example, capital adequacy 	<p>The extant ISA explicitly excluded “a press release or a transmittal memorandum”; “information contained on the entity’s website” and “information contained in analyst briefings” from being other information (refer extant paragraph A4).</p> <p>Paragraph A5 no longer lists these as exclusions from an annual report. Further, paragraph A3 does not include these within examples of what <i>would be included</i> in the annual report (note: the OFR is included).</p> <p>In respect of “a press release or a transmittal memorandum” and “information contained on the entity’s website, these documents are now implicitly excluded from the ISA as they do not meet the new “annual report” definition in</p>	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>

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	<p>reports), such as may be prepared in the banking, insurance, and pension industries.</p> <ul style="list-style-type: none"> • Corporate social responsibility reports. • Sustainability reports. • Diversity and equal opportunity reports. • Product responsibility reports. • Labor practices and working conditions reports. • Human rights reports. 	<p>paragraph 12(a).</p> <p>In respect of “information contained in analyst briefings”, it is considered in the public interest to include this as an additional example in paragraph A5 of what would <i>not</i> be other information and therefore excluded from the ISA scope. It is also considered appropriate to include “investor briefings” as these documents are used in Australia and are similar in nature to “analyst briefings”. The amendment would read:</p> <p>...</p> <ul style="list-style-type: none"> • <u>Information contained in investor or analyst briefings.</u> <p><u>Suggest</u> transfer to “compelling reasons” test.</p>	
A51 (responding)	<p>In reading the other information, the auditor may become aware of new information that has implications for:</p> <ul style="list-style-type: none"> • The auditor’s understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor’s risk assessment. • The auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. • The auditor’s responsibilities relating to subsequent events. 	<p>The guidance does not include other relevant examples such as:</p> <ul style="list-style-type: none"> • Communications with those charged with governance (ASA 260) • Going concern considerations (ASA 570) • Written representations that are requested of those charged with governance (ASA 580) • Key audit matters (ASA 701) • Comparative information (ASA 710) <p>It is acknowledged that guidance is not meant to be exhaustive and the related requirement at paragraph 20 does require the auditor to “<i>respond appropriately in accordance with other ISAs</i>” – which implicitly includes the above Auditing Standards.</p> <p>Accordingly, <u>suggest</u> no further guidance required.</p>	<p>Not Agreed – no compelling reason identified to make the suggested amendment.</p> <p>Do not amend.</p>
Appendix 2	Illustrative auditor’s reports relating to	Illustrative reports will need to be adapted under the <i>Corporations Act 2001</i> , consistent	

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	other information	<p>with approach taken in Auditor Reporting. This is consistent with the NZAuASB approach.</p> <p><u>Suggest</u> transfer to "compelling reasons" process.</p>	

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**Table 2: Issues arising from the extant AUASB Standard ASA 720
[as considered and resolved at 20 April 2015 meeting]**

The following references and extracts (predominantly requirements) are to existing “Aus” paragraphs that will need to be considered under the compelling reasons test.

Any “Aus” paragraphs located in the Application and Other Explanatory Material would need to be considered in conjunction with the relevant requirement.

Para. Ref	Extract	Initial Suggestion	Disposition
Aus 10.1	<p>If revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance, unless all of those charged with governance are involved in managing the entity; and</p> <p>...</p> <p>Aus 10.1 Withholding the auditor’s report is not permitted under the <i>Corporations Act 2001</i>.</p>	Do not retain.	Not retained in Exposure Draft
Aus A6.1	<p>For example, the auditor may be required to obtain consent from the Australian Securities and Investments Commission (ASIC) prior to resigning from certain audits.</p>	Do not retain.	Not retained in Exposure Draft

Table 3: Issues arising from the extant AUASB Standards subject to Conforming Amendments from ASA 720 [for consideration and resolution at the 19 May 2015 meeting]

The following references and extracts (predominantly requirements) are to existing “Aus” paragraphs within Various Australian Auditing Standards impacted by the ASA 720 conforming amendments, that will need to be considered under the compelling reasons test.

Any “Aus” paragraphs located in the Application and Other Explanatory Material would need to be considered in conjunction with the relevant requirement.

ASA 450

Para. Ref	Extract	Initial Suggestion	Disposition
Aus A1.1	The Australian Accounting Standards explain the role of materiality in making judgements in the preparation and presentation of financial reports by the entity.	Do not retain.	

ASA 560

Para. Ref	Extract	Initial Suggestion	Disposition
Aus 12.1	For an audit engagement conducted under the <i>Corporations Act 2001</i> , management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.	Do not retain.	
Aus A3.1	In some cases, law or regulation may identify the point in the financial reporting process at which the audit is expected to be complete.	Do not retain.	

ASA 810

Para. Ref	Extract	Initial Suggestion	Disposition
Aus 4.1	Summary financial statements means historical financial information that is derived from a financial report, but that contains less detail than the financial report, while still providing a structured representation consistent with that provided by the financial report, of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Summary financial statements may include an assertion by those responsible for the summary financial statements. Different jurisdictions may use different terminology to describe such historical financial information.	<p>Australian definition to incorporate terminology of "financial report" and "assertion statement" in relation to summary financial statements.</p> <p>It is suggested therefore that this definition be retained.</p> <p><u>Suggest</u> transfer to "compelling reasons" test – item (2).</p>	
Aus 14.1	In circumstance where the auditor's report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor's report on the summary financial statements.	Do not retain.	Not retained in Exposure Draft
Aus A6.1	Auditors that are required to issue an auditor's report on a concise financial report prepared under the <i>Corporations Act 2001</i> and Accounting Standard AASB 1039 <i>Concise Financial Reports</i> should refer to guidance contained in GS 001 <i>Concise Financial Reports</i> .	Do not retain.	Not retained in Exposure Draft
Aus A18.1	ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report, which may be helpful in applying the requirement in paragraph 23.	Do not retain.	Not retained in Exposure Draft

Aus A19.1	ASA 720 contains requirements and guidance relating to reading other information included in a document containing the audited financial report and related auditor's report, and responding to material inconsistencies and material misstatements of fact. They may be helpful in applying the requirement in paragraph 24.	Do not retain.	Not retained in Exposure Draft
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