

EXPOSURE DRAFT

ED 13/05
(October 2005)

Proposed Auditing Standard: Other Information in Documents Containing Audited Financial Reports (Re-issuance of AUS 212)

Prepared and Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 15 December 2005. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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ISSN 1030-603X

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PREFACE

Reasons for Issuing ED 13/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 212) *Other Information in Documents Containing Audited Financial Reports* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

Main Proposals

This proposed Auditing Standard:

- (a) establishes mandatory requirements and provides explanatory guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial reports; and
- (b) provides explanatory guidance when all the other information is not available prior to the date of the auditor's report.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 212 (October 1995)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 212 *Other Information in Documents Containing Audited Financial Reports* (October 1995), is that in this proposed Auditing Standard:

1. the word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should';
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance; and
3. the terminology and overall concepts have been aligned to the Audit Risk Standards. The issue and re-issue of the Audit Risk Standards in February 2004, comprising:
 - AUS 402 "Understanding the Entity and Its Environment and Assessing the Risks of Misstatement";
 - AUS 406 "The Auditor's Procedures in Response to Assessed Risks"; and
 - AUS 502 "Audit Evidence"gave rise to necessary conforming amendments to certain existing AUSs, including AUS 212.

A Table of Proposed Changes is provided as an attachment to the Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 212) *Other Information in Documents Containing Audited Financial Reports* by 15 December 2005. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be

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supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard << >> *Other Information in Documents Containing Audited Financial Reports* as set out in paragraphs 1 to 31, pursuant to section 227B of the *Australian Securities and Investment Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD

Other Information in Documents Containing Audited Financial Reports

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial reports. This Auditing Standard applies when an annual report is involved, however it may also apply to other documents.
- 5 **The auditor shall read the other information to identify material inconsistencies with the audited financial report.**
- 6 A "material inconsistency" exists when other information contradicts information contained in the audited financial report. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial report.

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- 7 An entity ordinarily issues on an annual basis a document which includes its audited financial report together with the auditor’s report thereon. This document is frequently referred to as the “annual report”. In issuing such a document, an entity may also include, either by law or custom, other financial and non-financial information. For the purpose of this Auditing Standard, such other financial and non-financial information is called “other information”.
- 8 Examples of other information include a report by management or those charged with governance on operations, financial summaries or highlights, employment data, planned capital expenditures, financial ratios, names of officers and directors and selected quarterly data.
- 9 In certain circumstances, the auditor has a statutory or contractual obligation to report specifically on other information. In other circumstances, the auditor has no such obligation. However, pursuant to paragraph 5 of this Auditing Standard, the auditor needs to give consideration to such other information when issuing an auditor’s report on the financial report, as the credibility of the audited financial report may be undermined by inconsistencies which may exist between the audited financial report and other information.
- 10 Some jurisdictions require the auditor to apply specific procedures to certain of the other information, for example, required supplementary data and interim financial information. If such other information is omitted or contains deficiencies, the auditor may be required to refer to the matter in the auditor’s report.
- 11 When there is an obligation to report specifically on other information, the auditor’s responsibilities are determined by the nature of the engagement and by local legislation and professional standards. When such responsibilities involve the review of other information, the auditor will ordinarily need to follow the guidance on review engagements in the appropriate Auditing Standard.

Access to Other Information

- 12 In order that an auditor can consider other information included in the annual report, timely access to such information will be required. The auditor ordinarily needs to make appropriate arrangements with the entity to obtain such information prior to the date of the auditor’s report. In certain circumstances, all the other information may not be available prior to such date. In these circumstances, the auditor

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would ordinarily follow the guidance in paragraphs 25 to 30 of this Auditing Standard.

Consideration of Other Information

- 13 The objective and scope of an audit of a financial report are formulated on the premise that the auditor's responsibility is restricted to information identified in the auditor's report. Accordingly, the auditor has no specific responsibility to determine that other information is properly stated.

Material Inconsistencies

- 14 **If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial report or the other information needs to be amended.**
- 15 **If an amendment is necessary to the audited financial report and the entity refuses to make the amendment, the auditor shall express a qualified or adverse opinion.**
- 16 **If an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall, consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency, or taking other actions.**
- 17 The actions taken, such as not issuing the auditor's report or withdrawing from the engagement, will depend upon the particular circumstances and the nature and significance of the inconsistency. The auditor would also ordinarily consider obtaining legal advice as to further action.

Material Misstatements of Fact

- 18 While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent misstatement of fact.
- 19 For the purpose of this Auditing Standard, a "material misstatement of fact" in other information exists when such information, not related to matters appearing in the audited financial report, is incorrectly stated or presented.

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- 20 **If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management.**
- 21 When discussing the matter with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and would ordinarily need to consider whether valid differences of judgement or opinion exist.
- 22 **When the auditor still considers that there is an apparent misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and shall consider the advice received.**
- 23 **If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall consider taking further appropriate action.**
- 24 The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

Availability of Other Information After the Date of the Auditor's Report

- 25 When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would ordinarily read the other information at the earliest possible opportunity thereafter to identify material inconsistencies.
- 26 If on reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, pursuant to paragraph 14 and 20 of this Auditing Standard, the auditor would determine whether the audited financial report or the other information need revision.
- 27 When revision of the audited financial report is appropriate, the guidance in AUS 706 "Subsequent Events" would be followed.
- 28 When revision of the other information is necessary and the entity agrees to make the revision, the auditor would ordinarily carry out the audit procedures necessary under the circumstances. The audit procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial

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report, the auditor's report thereon and the other information, are informed of the revision.

29 When revision to the other information is necessary but management refuses to make the revision, the auditor shall consider taking further appropriate action.

30 The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

Conformity with International Standards on Auditing

31 This Auditing Standard conforms with International Standard on Auditing ISA 720, "Other Information in Documents Containing Audited Financial Statements", issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

Compliance with this Auditing Standard enables compliance with ISA 720.

Table of Proposed Changes from AUS 212 <i>Other Information in Documents Containing Audited Financial Reports</i>
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Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1, 2	Requirement	New Application paragraphs.
3	Requirement	Re-position Operative Date paragraph.
5, 14, 15, 16, 20, 22, 23, 29	Requirement	Replace “should” with “shall”.
11, 12, 17, 21, 25, 28	Guidance	Insert “ordinarily” to clarify implied obligations.
9, 26	Guidance	Insert “pursuant to paragraph xx of this Auditing Standard...” to clarify implied obligations.
9, 10, 11, 14, 15, 19, 22	Requirement / Guidance	Change to conform to ISA 720.
8, 24, 28, 30	Guidance	Changes arising from the 2004 audit risk conforming amendments.