



Australian Government

Auditing and Assurance Standards Board

Level 7, 600 Bourke Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

14 March 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear James,

AUASB Submission on
Proposed ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB Exposure Draft on Proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*.

Overall, the AUASB is supportive of the IAASB's proposal to revise ISA 720 and incorporate changes that seek to address contemporary developments in the nature and extent of other information included in documents containing audited financial statements, as well as financial statement user expectations of auditors in respect of such information. However, we have a number of concerns about the approach taken in drafting a number of its requirements and related guidance. These concerns include the absence of certain key definitions, the nature and extent of the required work effort, the auditor's responsibilities for other information after the date of issuing the auditor's report, and the other information reporting required in the auditor's report.

Accordingly, the AUASB considers there may be significant difficulties in auditors being able to operationalise the requirements of the proposed ISA, particularly in being able to identify all the other information the auditor will be responsible for reading and considering, obtaining access to it on a timely basis, and also understanding the required work effort.

These concerns are reflected in both the AUASB's responses to the specific questions raised in the Exposure Draft (refer **Attachment 1**) and in its additional comments provided for the IAASB's consideration (refer **Attachment 2**).

We trust that you will find our comments helpful. Should you have any queries regarding this submission, please do not hesitate to contact either myself rmifsud@auasb.gov.au or Susan Fraser, Senior Project Manager sfraser@auasb.gov.au.

Yours sincerely,

Richard Mifsud
Executive Director

Attachments

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

Attachment 1

Responses to Specific Questions listed in the Explanatory Memorandum

1. *Do respondents agree that there is a need to strengthen the auditor’s responsibilities with respect to other information? In particular, do respondents believe that extending the auditor’s responsibilities with respect to the other information reflect costs and benefits appropriately and are in the public interest?*

AUASB Response: Yes

The AUASB agrees there is a need to strengthen and clarify the auditor’s responsibilities with respect to other information. Furthermore, the AUASB believes that extending the auditor’s responsibilities to “read and consider” the other information rather than merely “reading” the other information as required by existing ISA 720, is appropriate and in the public interest. Refer to the AUASB’s response at Question 11(a) (below) for our additional comments on “read and consider”.

The AUASB considers there may be some additional cost involved in extending the auditor’s responsibilities (and consequently work effort) as more senior engagement team members are likely to be performing the additional work.

2. *Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor’s report thereon is appropriate?*

AUASB Response: Yes

The AUASB supports the broadening of the scope of the proposed ISA as it clarifies the nature of documents that are included within “other information”. The AUASB considers it appropriate for “other information” to include documents that contain or accompany audited financial statements and the auditor’s report thereon.

However, the AUASB is concerned that the proposed ISA, in broadening the scope, may result in, some difficulties for auditors, which may include:

- (a) management not advising auditors of the availability of other information;
- (b) management not providing other information on a timely basis for the auditor (accessibility issues); and
- (c) management and auditors not being able to agree on what is other information (creating a lack of consistency in what is other information).

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

3. *Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statement are issued as defined in ISA 560?*

AUASB Response: No

The AUASB does not consider the concept of “initial release” as defined in paragraph 9(b) to be clear and readily understandable. The AUASB considers it appropriate for the initial release date definition to be aligned to ISA 560 *Subsequent Events* “date the financial report is issued”, and therefore suggests that the “initial release” definition be amended (and cross referenced to ISA 560). The AUASB further suggests that the “initial release” definition be aligned to the terminology used in ISA 700 *Forming an Opinion and Reporting on a Financial Report* with respect to the users of the auditor’s report (being the addressees of the auditor’s report) to ensure consistency between the Auditing Standards.

The AUASB has concerns with the unlimited potential timeframe for the auditor to “read and consider” other information created by the initial release definition, which may be a timeframe considerably after the auditor’s report is issued, and consider this to be a significant deficiency in the proposed ISA. Therefore, the AUASB strongly recommends that the proposed ISA explicitly require a defined timeframe for when the auditor’s responsibilities for reading and considering the other information begin and conclude. Refer **Attachment 2**, *Overall Comments* section, point 2 (below) for additional related comments.

The AUASB’s suggested wording of the “initial release” definition, incorporating the suggestions above is as follows (see underline):

“Initial release occurs when the audited financial statements and the auditor’s report thereon for a reporting period are first made generally available to addressees of the auditor’s report up to and including the date of release of the annual report.”

The AUASB recommends the term “date of release of the annual report” used above is added as a defined term in paragraph 9.

The AUASB does not consider it necessary to specify in the definition the phrase “it is often the shareholders”, as this will not always be the case, and therefore suggests it be re-located to related guidance.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR'S REPORT THEREON**

4. *Do respondents agree that the limited circumstances in which securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?*

AUASB Response: No

The AUASB does not agree, as a general principle, that it is appropriate for securities offering documents to be included within the scope of the proposed ISA.

In Australia, if other information in a securities offering document were to be scoped into the requirements of the proposed ISA, it would duplicate, and conflict with, existing assurance procedures required to be performed in respect of initial public offering documents under Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (issued November 2012).

5. *Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:*
- a. *Do respondents believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?*
- b. *Do respondents believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?*

AUASB Response:

- a. The AUASB believes the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable to the auditor, as it is consistent with current terminology used in ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. The AUASB believes this phrase could be further enhanced by referencing “this understanding” to the underlying standard that requires it - ISA 315. Refer b. below for the AUASB’s suggested amendment.

Furthermore, the AUASB does not consider that it is necessarily clear to users of the auditor’s report what “read and consider” means. The AUASB suggests that this could be addressed by providing a definition in the reporting section, particularly what the term “consider” means, given the proposed ISA suggests in guidance (at paragraph A37 and A43) that this could involving reconciling, agreeing or comparing particular information to the other information – some of which are procedures ordinarily performed in an assurance engagement.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

- b. The AUASB does not believe it is clear that the auditor’s responsibilities include reading and considering the other information to identify any material inconsistencies with the audited financial statements.

The AUASB therefore suggests amending paragraph 11 as follows (see underline). This wording includes the amendment proposed at a. above.

“The auditor shall read and consider the other information to ensure it is not materially inconsistent with the audited financial statements, in light of the auditor’s understanding of the entity and its environment acquired during the audit, and as required by ISA 315.”

6. *Do respondents agree that the definitions of terms of “inconsistency” including the concept of omissions and “a material inconsistency in the other information” are appropriate?*

AUASB Response: Yes

The AUASB supports the inclusion of the term “omissions” in the definitions at paragraph 9 of the proposed ISA. The AUASB does however consider that there may be practical difficulties for auditors in being able to determine the completeness of the other information and whether there are any omissions, and therefore suggests that the proposed ISA address how auditors might overcome this potential problem through additional guidance.

Additionally, the AUASB suggests that consideration be given to including in paragraph 9(a)(i) the term “contradictory” other information as compared to the audited financial statements, as follows (see underline):

“Inconsistency in the other information....contains information that is incorrect, contradictory, unreasonable or inappropriate....”

7. *Do respondents believe that users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditors understanding of the entity and its environment acquired during the course of the audit?*

AUASB Response: Yes

The AUASB considers the requirement at paragraph 16 will ensure users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

8. *Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor’s work with respect to the other information? In particular:*
- a. *Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?*
 - b. *Do respondents believe the categories of other information in paragraph A37 and the guidance of the nature and extent of the work effort for each category are appropriate?*
 - c. *Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?*

AUASB Response:

- a. Yes, the AUASB considers the continuation of the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information to be appropriate.
- b. No, the AUASB does not consider the categories of other information in paragraph A37 to be appropriate guidance on the nature and extent of the work effort for each category, as some of the procedures listed are those ordinarily performed in an assurance engagement. Refer **Attachment 2, Reading and Considering the Other Information** section below (point 1) for further information.
- c. Yes, the AUASB agrees that the work effort in the requirements is at the expected level, but considers that the related application and other explanatory material extends the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements – see comments at b. above.

9. *Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?*

AUASB Response: Yes

The AUASB considers the examples included in the Appendix to be very helpful to auditors. The AUASB also suggests the inclusion of the following example under the “Qualitative Financial Information” heading:

- Management discussion and analysis

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR'S REPORT THEREON**

10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?

AUASB Response: No

The AUASB does not consider it readily clear in the requirements (specifically paragraphs 11-15 inclusive) what the auditor's response should be if the auditor discovers that their prior understanding was incorrect or incomplete.

Paragraph 15 requires the auditor to "perform procedures necessary under the ISAs to determine whether the audited financial statements are materially misstated". Related guidance at paragraph A49 states that reading and considering other information may have "implications for the auditor's understanding of the entity and its environment and accordingly for the auditor's risk assessment", but does not state what these implications might be (for example, performing a risk re-assessment) nor include a cross reference to the applicable Auditing Standard ISA 330 *The Auditor's Responses to Assessed Risks*, which requires this re-assessment. The AUASB suggests that this be clarified either through amendments to paragraph 15 and/or through an additional cross reference to ISA 330.

11. With respect to reporting:

- a. Do respondents believe that the terminology (in particular, "read and consider" "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?*
- b. Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?*

AUASB Response:

- a. No, the AUASB does not consider it is necessarily clear to users of the auditor's report what "read and consider" means. The AUASB suggests that this could be addressed by providing a definition in the reporting section, particularly what the term "consider" means, given the proposed ISA suggests in guidance (particularly at paragraphs A37 and A43) that this could involving reconciling, agreeing or comparing particular information to the other information – procedures ordinarily performed in an assurance engagement.
- b. No, the AUASB does not consider that it is clear that the conclusion properly conveys no assurance, as the auditor is required in paragraph 16 to express a definitive conclusion on whether they have identified any material inconsistencies in the other information.

Users of the auditor's report may misunderstand the statement to be some type of

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

assurance given by the auditor on the other information given it is specifically included in the auditor’s report, and the nature of the report in which the statement appears is an auditor’s report expressing reasonable assurance.

Refer **Attachment 2 Overall Comments** section (point 1 below) for the AUASB’s additional comments on the issue of reporting, and specific comments on the proposed reporting requirements covered in the *Reporting* section.

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

AUASB Response:

The AUASB has provided additional comments in **Attachment 2 Overall Comments** section, point 1, in respect of its views on other information reporting – the AUASB considers no specific reporting with respect to other information is appropriate, or should be required. However, if the IAASB were to retain some form of reporting on the other information in the auditor’s report, the AUASB provides the following comments:

As the proposed ISA explicitly states at requirement paragraph 16(d) that “the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it”, the AUASB considers it inappropriate to include a reference to any type/level of assurance in the proposed ISA.

The AUASB therefore suggests that the reporting statement at paragraph 16(c) be re-worded to clarify that the statement is not in the nature of either a reasonable assurance or a limited assurance conclusion. Refer **Attachment 2, Reporting** Section, point 4 (below) for the AUASB’s suggested amendments to paragraph 16.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR'S REPORT THEREON**

Attachment 2

Additional Comments for the IAASB's Consideration

Overall comments

1. As already stated in the AUASB's response to Question 12 (above), the AUASB does not consider that any specific reporting with respect to other information is appropriate or should be required. The nature of the work performed in accordance with the proposed ISA is no different from other audit procedures performed throughout the audit process to enable the auditor to gain sufficient appropriate audit evidence to form an opinion on whether the overall financial statements are free from material misstatement and are prepared in accordance with the applicable financial reporting framework. The AUASB considers that the auditor's required work on the other information should be to read and consider the other information and only perform additional procedures on the other information when there are inconsistencies identified.

If material inconsistencies are identified, the AUASB considers it appropriate for the auditor to continue to follow the current requirements in ISA 700 *Forming an Opinion and Reporting On Financial Statements*, ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* regarding possible outcomes for the auditor's report. The proposed ISA could include a cross reference to these Standards in the footnotes or a direct reference. Refer to point 1 of the *Reading and Considering the Other Information* section (below) for how the AUASB considers this may affect the auditor's required work effort.

2. As already stated in the AUASB's response to Question 3 (above), the AUASB considers the lack of a definitive timeframe for auditors to be required to perform work on other information to be a significant shortcoming in the proposed ISA. The AUASB therefore strongly recommends to the IAASB that the proposed ISA explicitly set out (in a requirement) a defined timeframe for when the auditor's responsibilities for reading and considering the other information should begin and conclude. The AUASB recommends that this timeframe be "up to and including the date of release of the annual report".

This change would include amending requirement paragraph 10(b), which is already inconsistent with guidance paragraph A27. Paragraph A27 deals with other information obtained after the date of the auditor's report and states "that the auditor is not required to update the procedures performed in accordance with paragraphs 6-7 of ISA 560 (which deal with events occurring between the date of the financial report and the date of the auditors' report). Guidance paragraph A27 goes onto state "However, the auditor's responsibilities when facts became known to the auditor after the date of the auditor's report are addressed in paragraphs 10-17 of ISA 560". ISA 560, requirement paragraph 14 states, "after the financial report has been issued, the auditor has no obligation to perform any audit procedures regarding such financial report". Given this, the AUASB considers it critical that the other information timeframe for reporting be consistent with existing ISA 560 in respect of other information that may come to the auditor's attention after the date of the auditor's report.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR'S REPORT THEREON**

The AUASB considers that there may be practical difficulties in auditors being able to access “other information” – whether through timing issues with its preparation, the information being subject to legal professional privilege, not being publically available, or through management’s unwillingness to provide the other information on a timely basis, or at all. There may also be difficulties in the auditor being able to assess whether there is information omitted from the “other information” as they are not responsible for its preparation nor its basis of preparation (i.e. prepared based on a defined reporting framework – see comments at point 6 below). The proposed ISA does not currently address what the auditor is required to do should there be such problems in accessing the other information. The AUASB therefore recommends that additional requirements and related guidance be included in the proposed ISA to address these issues.

3. The AUASB recommends that requirements contained in this proposed ISA be aligned to, and made consistent with, any “other information” reporting requirements proposed for inclusion within the IAASB’s current Auditor Reporting project.
4. The AUASB supports the exclusion of preliminary announcements from the scope of the proposed ISA.
5. The AUASB considers that the absence of a defined financial reporting framework that covers management’s preparation of all types of other information in this proposed ISA, may make it difficult for the auditor to determine an inconsistency in the other information – that is, whether it is incorrect, unreasonable, inappropriate, omitted or obscured information (as defined at paragraph 9). Such concepts are often matters of judgement, and in the absence of a defined financial reporting framework, potentially open to different interpretations by the auditor and management. The AUASB therefore recommends that the IAASB and the IASB continue to work together to address this issue and enable the auditor to make assessments of other information as compared to a defined financial reporting framework for that other information.
6. In Australia there are applicable laws and regulations (including the *Corporations Act 2001* and Regulatory Guides issued by the Australian Securities and Investments Commission) related to auditors’ reporting obligations when conducting an audit or review of financial reports. Some of these obligations are in respect of information that would be covered under this proposed ISA. Therefore the AUASB will take factors these into consideration when making any future revisions to its own Auditing Standard *ASA 720 The Auditor’s Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*.

Definitions (Paragraph 9)

The AUASB suggests the following definitions be amended or included within the proposed ISA:

1. The term “properly understand the matter” already included within the definition of “inconsistency in the other information” be clarified, either through amendments to the existing definition, a new definition, or the inclusion of additional guidance.

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR'S REPORT THEREON**

2. The phrase “read and consider” be defined given this terminology is critical to auditors being able to understand the work to be performed on the other information, as well as to aid users of the auditor’s report understand what the auditor’s responsibilities have included in respect of the other information. This is particularly important, given the existing related guidance at paragraphs A28-A43 (inclusive) implies that reading and considering procedures are more in the nature of assurance procedures. Refer the AUASB’s comments below in the *Reading and Considering the Other Information* section (point 1) for further information on this issue.
3. The term “auditor” be defined, for the purposes of the proposed ISA, to be “the engagement partner”. The AUASB considers the definition of “engagement partner” in ISA 220 *Quality Control for an Audit of Financial Statements and Other Historical Financial Information*, paragraph 7(a) to be appropriate, and suggests that this definition could either be replicated in the proposed ISA, or be cross-referenced to ISA 220.
4. The phrase “date of release of the annual report” be defined to be “the date that the annual report is first released to users of the annual report.” Refer the AUASB’s response to Question 3 above (re “initial release” and “date of release of the annual report”) for further information.
5. Refer the AUASB’s response to Question 6 (above) for suggested amendments to the term “inconsistency”.

Obtaining the Other Information (Paragraph 10(b))

1. The AUASB recommends an additional sub-paragraph be included within paragraph 10 for the auditor to be required to obtain management’s acceptance that it acknowledges and understands its responsibility for the preparation and issuance of all documents that are expected to be issued in connection with the initial release, and that are consequently within the scope of the auditor’s required work in accordance with this ISA. This principle is consistent with that contained in ISA 210 *Agreeing the Terms of Audit Engagements* (paragraph 6(a)) and that required in ISA 700 *Forming an Opinion and Reporting on Financial Statements*, paragraph 43(d), and therefore this new requirement could be cross referenced to these standards. The AUASB’s suggested wording is as follows:

“Obtain the agreement of management that it acknowledges and understands its responsibility for the preparation and issuance of all documents that are expected to be issued in connection with the initial release (as defined at [X]), and that are consequently within the scope of the auditor’s required work in accordance with ISA 720.”

Reading and Considering the Other Information (Paragraph 11)

1. As already stated in the *Overall comments* section (above – point 1), the AUASB considers that the auditor’s work on other information should be to read and consider it and only perform additional procedures on the other information when there are

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

inconsistencies identified.. Given that the overall objective of reading and considering other information is to report whether any material inconsistencies were identified, the AUASB considers that the nature and extent of procedures outlined in guidance paragraphs A28-A43, particularly at paragraph A37 are confusing. The guidance procedures suggested could be interpreted by auditors to go beyond what might be understood to be required of a “no assurance” outcome by specifying assurance procedures (including agreeing, testing arithmetic accuracy, and evaluating any quantitative or qualitative differences) – leading to confusion over the required work effort. This could also lead to inconsistency in practice as to the procedures performed. The AUASB suggests that the IAASB clarify this issue as a priority to ensure that there is consistency and clarity in the required work effort.

2. The AUASB suggests the inclusion of the following amendment (see underline) to paragraph 11 of the proposed ISA to clarify the auditor’s work in respect of the other information:

“The auditor shall read, consider and perform appropriate procedures in accordance with this ISA in respect of the other information, in light of.....”

This requirement could be directly referenced to existing guidance at paragraph A37.

Documents Accompanying Audited Financial Statements and The Auditor’s Report Thereon
(Paragraph A11)

The AUASB suggests that the definition of “financial reporting process” included within this guidance paragraph be elevated to a definition to be included at paragraph 9- as this is a key term within the existing definition of “other information” at paragraph 9(c)(ii).

Reporting (Paragraph 16)

The AUASB has already outlined in the response to Question 12 and the *Overall Comments* section (above) its overall view regarding the proposed reporting requirements. However, if the IAASB were to retain some form of reporting on the other information in the auditor’s report, the AUASB provides the following additional comments:

1. The AUASB considers it important for auditors’ reporting on other information to include an explanation of what a “material inconsistency” is, so that users of the auditor’s report understand the context in which the auditor’s statement about the other information is made, particularly if it relates to differences of opinion between the auditor and management, misstatements of fact, or both. The AUASB therefore suggests this explanation be incorporated into paragraph 16.
2. The AUASB recommends the inclusion of wording acknowledging that management is responsible for the preparation of the other information referred to by the auditor. Refer point 2 of the *Obtaining the Other Information* section above for further information.
3. The AUASB recommends that paragraph 16(a) be expanded to explicitly require the auditor to state that the auditor’s responsibilities in respect of the other information are to read and consider it solely to identify any material inconsistencies in the other

**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:
ISA 720, THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND
THE AUDITOR’S REPORT THEREON**

information, or to identify whether the audited financial statements may be materially misstated.

4. The AUASB recommends the reporting of material inconsistencies within the auditor’s report be on an exception basis and consequently only be required when the auditor has identified a material inconsistency (inconsistencies) which remain in the other information at the date of the auditor’s report (underlined for emphasis). The AUASB considers that requiring a definite statement from the auditor whether they have “identified material inconsistencies in the other information” is in the nature of reasonable assurance, and will increase the level of audit work performed in order to explicitly make such a statement. The AUASB also prefers, given the work to be performed by the auditor in the proposed ISA is more in the nature of reading and considering the other information to see if there are any material inconsistencies which come to the attention of the auditor rather than seeking out material inconsistencies in the other information, that the statement be more clearly drafted so that no assurance can be inferred from it.

The AUASB therefore recommends the following amendments to paragraph 16(c) (see underline):

“A statement addressing whether, based on reading and considering the other information obtained, anything has come to the auditor’s attention that there are material inconsistencies in the other information which remain at the date of the auditor’s report, and if so, a statement describing their nature and possible effect if any, on the audited financial statements; and.....”¹

5. The AUASB further recommends that additional guidance be included related to paragraph 16(b) to explain how auditors identify the specific documents that contain the other information.

¹ This wording is consistent with the “auditor’s statement” reporting concept contained in Australian Standard on Related Services ASRS 4450 *Comfort Letter Engagements* - a no assurance Australian Standard issued in November 2012 by the AUASB.