



**Australian Government**  
**Auditing and Assurance Standards Board**

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Ms Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6<sup>th</sup> Floor  
New York, New York 10017 USA

Dear Kathleen,

**AUASB Submission on  
Proposed ISA 720 *The Auditor's Responsibilities Relating to Other Information***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's second exposure draft (ED) on Proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information*.

Overall, the AUASB remains supportive of the IAASB's continued efforts to revise ISA 720. It still does however have some concerns about the approach taken in the auditor's work effort and the Other Information reporting.

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

In formulating its views for this submission, the AUASB has considered input from numerous stakeholders, which was provided through direct outreach and at a recent AUASB roundtable event. Input was obtained from auditing firms, professional accounting bodies, preparers of financial statements, directors and audit committee members.

Should you have any queries regarding this AUASB submission, please do not hesitate to contact either myself [rmifsud@auasb.gov.au](mailto:rmifsud@auasb.gov.au) or Susan Fraser, Senior Project Manager [sfraser@auasb.gov.au](mailto:sfraser@auasb.gov.au).

Yours sincerely,

Richard Mifsud  
*Executive Director*

Attachments

**Attachment 1**

**Responses to Specific Questions listed in the Explanatory Memorandum**

1. *Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to Other Information.*

**AUASB Response:**

*(a) Scope* (ED paragraphs 1-9)

The AUASB considers the scope adequately describes and sets forth appropriate auditor responsibilities. However, the AUASB believes it can be improved by explicitly excluding from the scope and application of the proposed standard the audit of financial statements prepared for the half-year.

Refer **Attachment 2** for the AUASB's additional comments related to the scope of this ED (page 4).

*(b) Stated objectives* (ED paragraph 11)

The AUASB considers the stated objectives adequately describe and set forth appropriate auditor responsibilities.

Refer **Attachment 2** for the AUASB's additional comments on this ED related to the objectives (page 4).

*(c) Definitions* (ED paragraph 12)

The AUASB considers the definitions are helpful in addressing the auditor responsibilities.

Refer **Attachment 2** for the AUASB's additional comments on this ED related to the definitions (page 4).

*(d) Auditor's work effort* (ED paragraphs 13-20)

The AUASB considers the auditor's work effort section adequately describes and sets forth appropriate auditor responsibilities. However, the AUASB believes it can be improved by specifically addressing the auditor's responsibilities when the other information ("OI") is not received by the time of signing the auditor's report, and by allowing auditors to receive the "latest available version of the OI" rather than its "final version" to enable the auditor to report on OI in the auditor's report.

Refer **Attachment 2** for the AUASB's additional comments on this ED related to the auditor's work efforts (pages 4-6).

2. *Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.*

**AUASB Response:**

The AUASB does not consider that the ISA proposals are capable of being consistently interpreted and applied particularly in the Australian jurisdiction, for the following reasons:

- A few entities will have prepared and finalised the annual report in time for the auditor to read and consider it prior to the signing of the auditor's report, but many entities will not, leading to inconsistency in the reporting on OI.
- The exception based reporting option in the ISA in Australia is not seen as helpful for users to understand the auditor's work efforts or in achieving consistency in the reporting on OI. Accordingly, the AUASB strongly recommends mandating the auditor's reporting on OI such that the auditor is required to always report: whether they have received the OI or not; where OI is received, whether it is all or part of the OI; and if received, the results of the auditor's considerations on the OI.

3. *Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information?*

**AUASB Response:**

Based on consultations with stakeholders in Australia, the AUASB does not necessarily consider the proposed auditor reporting requirements will result in more effective user communications than at present for the following reasons:

- The exception based reporting option in the ED could lead to user confusion as to the status of the auditor's work on OI. Refer to the AUASB's response to Question 2 (above) for further information.
- Some users may be confused with the auditor providing a statement that does not express or convey any assurance on the OI in an audit/assurance report. Consequently users may inappropriately take assurance when none is intended. This may increase the expectation gap of users.
- The narrowing of the ISA's scope to the auditor reading and considering only OI contained in the "final version of all or part of the OI" (i.e. annual report) will be very problematic in Australia. The final version of the annual report is seldom prepared and made available to auditors prior to signing the auditor's report. This effectively makes the ISA's reporting requirements redundant and the AUASB doubts that this would have been the intention of the IAASB.

Refer **Attachment 2** for the AUASB's additional comments on this ED related to Reporting on the other information (pages 6-7).

**AUASB RESPONSE TO IAASB 2<sup>nd</sup> EXPOSURE DRAFT:  
ISA 720 THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION**

4. *Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.*

**AUASB Response:**

The AUASB agrees with the IAASB's conclusion on this matter.

**Responses to General Questions listed in the Explanatory Memorandum**

1. *Recognising that the proposed ISA results in changes to the auditor's report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB's Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12-15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.*

**AUASB Response:**

The AUASB agrees with the IAASB's proposed effective date timeframe.

The AUASB does not disagree with earlier application of the ISA being permitted. However, the AUASB notes that this may cause some inconsistency in practice if earlier application is not adopted by all applicable jurisdictions. To this end, the IAASB may wish to reconsider the efficacy of earlier application.

## **Additional Comments for the IAASB's Consideration**

### *Proposed Title Change*

The AUASB suggests, for clarity of ISA application and user understanding, the ED be re-titled as ISA 720 *The Auditor's Responsibilities Relating to Other Information Contained in an Annual Report*.

### *Scope (ED paragraphs 1-9)*

The AUASB suggest the wording in paragraph 5 be incorporated into the OI definition at paragraph 12(c), as the AUASB considers this to be more definitional in nature.

### *Objectives (ED paragraph 11)*

The AUASB suggests that the objectives include wording after sub-paragraph (b) and before sub-paragraph (c) to the effect that the auditor is to "Consider whether any identified material inconsistencies lead to a material misstatement in the financial statements or the OI."

### *Definitions (ED paragraph 12)*

The AUASB suggests that:

- "Material inconsistency" is defined given its use throughout the ED, and "material misstatement" be referenced to ISA 450 *Evaluation of Misstatements Identified During the Audit*.
- The term "disclosures" are included within the OI definition to give more prominence to this area.
- "Latest available version of the OI" replaces "final version of all or part of the OI" and that this be a defined term. This would enable Australian auditors to be able to obtain a non-final version of the OI, perform the required work on it in accordance with the ISA, and then to report on that OI in the auditor's report.

### *Obtaining the Other Information (ED paragraph 13)*

The AUASB suggests the inclusion of an additional new requirement after paragraph 13 for the auditor "to obtain management's acceptance that it acknowledges and understands its responsibility for the preparation and issuance of the OI contained in the annual report and for providing the auditor with a copy of it as soon as practicable so that the auditor may read and consider it within the scope of the auditor's required work in accordance with this ISA."

The AUASB further suggests this be reflected in the proposed conforming amendment to ISA 210 *Agreeing the Terms of Audit Engagements* regarding the audit terms.

*Reading and Considering the Other Information (ED paragraphs 14-15)*

1. As an overall comment, the requirement in paragraph 14 for the auditor to read and consider OI in the annual report to identify any material inconsistencies was considered by some auditors difficult to achieve in practice, as the annual report has not been prepared by those charged with governance in accordance with a defined applicable reporting framework (framework). This gives rise to the following potential issues:
  - The lack of a framework for the OI means there may be no defined way for the auditor to readily compare the OI to the financial statements, and hence the reading and considering of the OI will inherently involve significant auditor judgement. This creates the potential for the OI to be open to different interpretations by the auditor and management/those charged with governance. Auditors may therefore be less likely to assert to management and/or those charged with governance that there is a material inconsistency. This is particularly in the case of qualitative non-financial OI which is by nature subjective and hence more difficult for auditors to evaluate.
  - The lack of a framework may be seen to increase auditor litigation risk.

The AUASB therefore suggests that the IAASB and the IASB continue to work together to address the issue of a reporting framework to enable auditors to be able to make assessments of OI in relation to that reporting framework.

2. Some Australian auditors suggested that the ISA require auditors to only read and consider “material factual information in the OI” (i.e. annual report). They considered this approach would be more practical as the auditor’s assessment would be based on whether the OI is supported by evidence, rather than professional judgement. If this approach were to be adopted, the AUASB considers that this would require both the identification of the material factual information and how the auditor determined materiality for the purposes of reporting on that OI.
3. The AUASB considers that sub-paragraph 14(c) may be unnecessary as the auditor is implicitly already doing this as part of the requirements in sub-paragraphs 14(a) and (b). The AUASB therefore suggests it be deleted and be replaced by a more specific requirement for the auditor to “Consider the OI for any implications in respect of the financial statement audit or the requirements of other ISAs.”
4. The AUASB suggests that the word “limited” in paragraph 15 is unhelpful in reducing the “expectation gap”, as it may be interpreted to infer review-type limited procedures being performed. Given the auditor’s work on OI does not result in any assurance being expressed on that OI in the auditors’ report, the AUASB suggests the word “limited” be deleted and replaced with more descriptive language of the procedures such as “procedures considered appropriate by the auditor”. Additionally, given the nature of many of the items in the annual report relate to disclosures, the AUASB also suggests this be explicitly stated in paragraph 15.

*Auditor Unable to Obtain Other Information (AUASB proposed new section)*

The AUASB considers there needs to be more clarity on what auditors are expected to do if they are unable to obtain the OI prior to the signing of the auditor’s opinion. Consequently, the AUASB suggests that a new section and requirements dealing with this be included in the ISA.

*Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated (ED paragraph 16)*

1. The AUASB considers that paragraph 16 may be open to differing interpretations. This is due to the mixing of terminology (material inconsistency and material misstatement) and allowing auditors the option of performing procedures “if necessary.”

The AUASB therefore suggests the:

- inclusion of clarifying wording that explains that “the identification of a material inconsistency in the OI requires the auditor to then determine if there is a material misstatement in the OI or the financial statements.”
  - Inclusion of clarifying wording that the auditor is required to “perform other procedures considered appropriate in the auditor’s professional judgement.”
2. The AUASB considers that the wording “auditor’s understanding of the entity and its environment” in paragraph 16 is not the only audit-related matter that would need to be updated if such a material inconsistency were identified. The AUASB therefore suggests a more generalised requirement replace paragraph 16(c) for the auditor to “Consider if the material inconsistency has an impact on the requirements contained in other ISAs.”
  3. The AUASB suggests that examples of “other procedures” be added to the related guidance to assist auditors and to encourage some level of consistency with the approach taken to the other procedures.

*Responding When a Material Inconsistency Exists (AUASB proposed new section)*

The AUASB considers that there is a new requirement required after paragraph 16 to clarify the auditor’s responsibilities when a material inconsistency exists i.e. “The auditor shall determine if that material inconsistency leads to a material misstatement in the financial statements or the OI.”

*Reporting (ED paragraphs 21-23)*

1. The AUASB considers that the reporting requirements should be consistent with the approach taken in ISA 570 *Going Concern* (Auditor Reporting project) and consequently that all OI reporting requirements be included in ISA 700 *Forming an Opinion and Reporting on the Financial Statements* (ISA 700).
2. Within the context of point 1 above, the AUASB suggests the following changes to paragraph 21 for incorporation into ISA 700:
  - The inclusion of additional wording in sub-paragraph (a) acknowledging that management is responsible for the preparation of the OI referred to by the auditor.
  - The inclusion of additional wording in sub-paragraph (b) clarifying that the auditor has not prepared the annual report.
  - The inclusion of a definition of “material inconsistency” so that users of the auditor’s report understand the context in which the auditor’s statement about the OI is made, particularly if it relates to differences of opinion between the auditor and management, misstatements of fact, or both.
  - The inclusion of “subject to” wording in sub-paragraph (d) to clarify that if the auditor has issued a disclaimer of opinion on the financial statements, that the auditor will be unable to include the required statement.

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3. As noted above, the AUASB considers that the auditor should be required to always report on OI in the OI section within the auditor's report, rather than on an exception basis. Consequently, in the event the auditor has not obtained the OI prior to the date of the auditor's report, the auditor should be required to report, by way of a statement in the OI section words to the effect "that no OI was made available to the auditor at the date of the auditor's report."
4. Consistent with the AUASB's comments on paragraph 21 above, paragraph 22 requires "except for" wording reflecting that a disclaimer of opinion on the financial statements will prevent the auditor from making the required statement in paragraph 21(d).
5. The AUASB considers a new requirement is necessary after paragraph 22 to describe the auditor's requirements with respect to reporting on the OI in the event a disclaimer of opinion on the financial statements has been issued. This could include wording to the effect "that because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph on the financial statements, we were not able to determine whether there was an uncorrected material inconsistency in the OI as compared to the financial statements."

*Documentation* (ED paragraph 24)

The AUASB considers that this paragraph is inadequate and should be subject-matter specific. The auditor should also be required to retain documentation in respect of the procedures performed by the auditor on the OI, the results of the procedures, and the auditor's evaluation of the results. If adopted, the proposed conforming amendment to ISA 230 (guidance paragraph A24) would need to be amended for consistency.

## **Guidance**

*Implications of New Information* (ED paragraph A46) (Ref: Para. 20)

The AUASB considers the following should be added to paragraph A46 guidance, with appropriate cross references to the relevant ISAs:

- Communications with those charged with governance (ISA 260)
- The auditor's risk responses (ISA 330)
- Going concern considerations (ISA 570)
- Written representations that are requested of those charged with governance (ISA 580)
- Key audit matters for applicable entities (ISA 701)
- Comparative information (ISA 710)

*Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements* (ED paragraph A22-A26)  
(Ref: Para. 14(a))

The AUASB suggests the following editorials be made to the guidance:

- Paragraph A22 include "Comparative information" as another important example.
- Paragraph A23 include "in all material respects" terminology in respect of the procedures performed.



*Responding When the Auditor Determines That a Material Misstatement of Other Information Exists* (ED paragraphs A39) (Ref: Para. 18)

The AUASB suggests that additional wording be added to paragraph A39 to clarify “that such a material inconsistency in the OI will not ordinarily result in any modification to the auditor’s opinion on the financial statements, as the auditor’s work on OI is not neither of assurance nature nor reporting thereon.” The only exception to this would be for the reasons outlined in paragraph A40.

The AUASB suggests, for ease of reference, that paragraph A40’s wording be incorporated into paragraph A39 after this suggested additional wording, so that all the auditor’s options are contained within the one paragraph.

*ISA 220 Quality Control for An Audit of Financial Statement*  
(ISA 220, paragraph 21(c))

The AUASB suggests an additional conforming amendment be added to ISA 220 guidance (at paragraphs A28-A31) regarding the requirement contained in paragraph 21(c) to clarify that “the engagement quality control reviewer, is expected, as part of their review of the audit documentation, to review the auditor’s work on the OI contained in the annual report, whether it has been received prior to, or after, the signing of the auditor’s report.”

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