

Ms Merran Kelsall
Chairman
Australian Auditing and Assurance Standards Board
PO Box 204
Collins Street
Melbourne
VIC 8009

10 August 2015

Dear Ms Kelsall

Re: Exposure Draft ED 02/15 – *The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments*

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on Exposure Draft ED 02/15 - *The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments* incorporating the following:

1. Proposed revised Auditing Standard: ASA 720 *The Auditor's Responsibilities Relating to Other Information*
2. Proposed conforming amendments to various Auditing Standards:
 - ASA 210 *Agreeing the Terms of the Engagement*
 - ASA 230 *Audit Documentation*
 - ASA 260 *Communication with Those Charged with Governance*
 - ASA 450 *Evaluation of Misstatements Identified during the Audit*
 - ASA 500 *Audit Evidence*
 - ASA 510 *Initial Audit Engagements – Opening Balances*
 - ASA 560 *Subsequent Events*
 - ASA 570 *Going Concern*
 - ASA 580 *Written Representations*
 - ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*
 - ASA 700 *Forming an Opinion and Reporting on a Financial Report*
 - ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
 - ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*
 - ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
 - ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports*
 - ASA 810 *Engagements to Report on Summary Financial Statements*

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We support having one set of international standards on auditing that are used by practitioners worldwide in the audit of a financial report. Accordingly, we support the issuance of the proposed revised and amending standards as part of the harmonisation project and conformity with International Standards on Auditing.

As noted in our recent response to ED 01/15, one of the key functions of the AUASB under the ASIC Act is to make standards under section 336 of the *Corporations Act 2001*. The international standards recognise there may be a need to amend for the requirements of local law and regulation; therefore it is our view that the Australian Auditing standards should include details of the requirements of the *Corporations Act 2001* as relevant in the individual standards. We believe the inclusion of these paragraphs serve the public interest by clearly linking relevant legislative and auditing standard requirements and guidance. Accordingly we do not support the proposed removal of the *Corporations Act 2001* paragraphs from the standards.

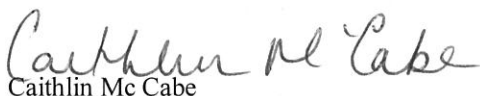
Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 02/15.

In addition, we have included specific comments relating to the wording of the proposed standards within ED 02/15 in Appendix 2.

In Appendix 3, we have provided an example of an updated decision tree.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 7288.

Yours sincerely



Caithlin Mc Cabe

Partner

Deloitte Touche Tohmatsu

Appendix 1 – Response to specific questions posed within ED 02/15

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

Refer below to our responses to questions 2 and 4.

2. *Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

Nothing noted.

3. *What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standards? If there are significant costs, do these outweigh the benefits to the users of the audit services?*

The potential benefits arising from compliance with the main changes to the requirements of the proposed standards include improved transparency and understanding of management's and the auditor's responsibilities relating to the other information due to the inclusion of a separate section in the auditor's report.

We do not foresee that there will be significant costs associated with the implementation of the proposed changes to the standards, although we acknowledge that there will be incremental time costs for auditors (such as updating wording within auditor's reports and education for practitioners) and ongoing activities such as communications with management and those charged with governance (leading up to and after the issuance of the auditor's report).

4. *Is the removal of (only) "Aus" paragraph references to the Corporations Act 2001 – currently included within the requirements and application and other explanatory material – supported?*

If removal of existing references is not supported, respondents are asked to indicate their preference for locating the re-instated material within the standard:

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

As noted above, we do not support the removal of the *Corporations Act 2001* Aus paragraph references. Based on our experience, the auditing standards are the auditor's primary reference material when performing an audit or researching an audit related topic. Thus, we believe the inclusion of these paragraphs is in the public interest as it incorporates the relevant legislative requirements of the *Corporations Act 2001* in the same location as the auditing standard requirements and guidance.

In order to be the most effective, our preference is to embed the *Corporations Act 2001* references within the relevant requirements and application and other explanatory material of the standard, not via a cross-reference to an appendix in the standards.

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

We believe in some circumstances that it may be challenging in practice to identify and distinguish the relevant "other information", especially for entities other than listed entities as the concept of an "Annual Report" is more common for listed entities. We understand and acknowledge that defining other information with reference to the annual report at the international level (within ISA 720) has been done to limit the definition of other information and the auditor's responsibilities thereon.

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

The guidance included within paragraphs A49-A50 of ASA 720 provide a general starting point for auditors when considering what actions may be appropriate in order to bring to the users attention the existence of an uncorrected material misstatement in the other information obtained after the issuance of the auditor's report.

We believe that additional guidance would be helpful to provide practical assistance for auditors in the Australian environment and also indicate to entities and users what the expectations and options are for auditors in these circumstances.

We recommend that the additional guidance be incorporated within ASA 720 as Australian specific supplementation as this is likely to be the most logical and useful place to include it. The additional guidance incorporate applicability to common engagements within Australia (for example, Corporations Act 2001 engagements), the expectation or likelihood of different actions and what circumstances would prompt the auditor to perform certain actions (for example, is it likely and when would it be expected that the auditor would seek legal advice) and the inclusion of Australian specificities (for example, the reference to relevant professional body may include the Institute of Chartered Accountants and CPA Australia).

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

We believe that the structure and content within ASA 720 is sufficiently clear and detailed for auditors to understand the different reporting requirements for listed and other than listed entities, however there is a potential for confusion amongst users of the auditor's report.

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

Nothing further of significance noted.

Appendix 2 – Other specific comments relating to proposed standards within ED 02/15

| ED 02/15 Section or Paragraph | Comment |
|--|--|
| ASA 720 (Document 2 of 3) | |
| 2 | Typo noted in the first line as follows: "...an audit of financial report..." which should be updated to "...an audit of <u>a</u> financial report..." |
| 12(c) | Typo noted in the first line as follows: "... (other than financial report..." which should be updated to "... (other than <u>the</u> financial report..." |
| 14(a) | Grammatical error noted in the second line as follows: "...the auditor shall, to evaluate..." which should be updated to "...the auditor shall, evaluate..." |
| 22(b)(ii) | Typo noted in the first line as follows: "For an audit of financial report..." which should be updated to "For an audit of <u>a</u> financial report..." |
| A22 | <p>We note that the example written representations that may be requested from management in relation to other information are not proposed to be included within the illustrative management representation letter in the appendix to ASA 580.</p> <p>Our recommendation is that this wording be added to the illustrative management representation letter in ASA 580.</p> |
| Appendix 1 – Examples of Amounts or Other Items that May be Included in the Other Information | <p>The last sentence of the last bullet point under the "Amounts" section states that "Some of these may be directly reconcilable to the financial report".</p> <p>It is noted that this statement may be applicable to other bullet points within the "Amounts" section (not just the last one), but it is also questionable whether this statement is required at all. We recommend that this sentence either be moved to apply more broadly to the examples in the "Amounts" section or it be removed altogether.</p> |
| Appendix 2 – Decision Tree for Other Information Reporting in the Auditor's Report | <p>We believe that the current structure of the decision tree is confusing and thus some of the resulting outcomes may be misleading or inappropriate. For example,</p> <ul style="list-style-type: none"> the wording in the first box does not make reference to 'at the date of the auditor's report'; the outcome under the 'No' option doesn't allow for circumstances where other information is expected to be obtained after the date of the auditor's report for listed entities; and the final box on the left hand side (under the 'Yes' option) seems to be applicable to any type of entity, however the identification of any other information (within the auditor's report) expected to be obtained after the date of the auditor's report is only applicable for listed entities. <p>We recommend that the decision tree is reviewed and updated accordingly. To illustrate the points noted above and to assist in the redrafting process, we have included an example updated decision tree – please refer to Appendix 3 of this letter.</p> |
| Appendix 3 – Illustrative Auditor's Reports | If the detailed illustrative auditor's reports remain, we recommend within the circumstances box that reference is made to indicate that the applicable year end is 30 June 20X1. Or alternatively, the year end date within the body of the illustrative auditor's reports is updated to be more generic such as '[date]'. |

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|---|--|
| Appendix 3 – Illustrative Auditor’s Reports | <p>Within the circumstances boxes for the Corporations Act 2001 illustrative examples, it states in one bullet point that the financial report is prepared by the directors of the entity (who are those charged with governance) and it then states in a later bullet point that those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report – these facts seems to be in conflict with each other.</p> <p>If the detailed illustrative auditor’s reports remain, we recommend that the later bullet point stating that those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report be deleted.</p> |
| Appendix 3 – Illustrative Auditor’s Reports | <p>Currently included within the “Other information” section of the illustrative auditor’s reports is the following statement: “Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon”.</p> <p>We acknowledge that the above wording is consistent with ISA 720, however this doesn’t seem to be technically in accordance with the requirements specified in paragraph 22(c) of ASA 720, which states that the Other Information section will include: “A statement that the auditor’s opinion does not cover the other information and, <u>accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon</u>”.</p> |
| Appendix 3 – Illustrative Auditor’s Reports | <p>For consistency purposes we recommend that the format of the last paragraph within the “Other information” section of the illustrative auditor’s reports be updated so it is the same across the various illustrative reports as currently this is included as either one paragraph or two paragraphs.</p> |
| Appendix 3 – Illustrative Auditor’s Report | <p>In all of the illustrative auditor’s reports (other than illustration 2A), the second sentence of the first paragraph under the “Other information” section currently refers to: “The other information comprises the [information included in the X report,[#] but does not include the financial report and our auditor’s report thereon.]”.</p> <p>We believe that most of the elements within the square brackets above would be standard common wording within the auditor’s report rather than optional. Thus, we recommend that the illustration wording be updated to move the square brackets, thus it would read as follows: “The other information comprises the information included in the [X report][#] (but does not include the financial report and our auditor’s report thereon).” This recommended change aligns with the current wording and structure included in illustration 2A.</p> |
| Attachment | <p>As indicated above, we support the inclusion of the <i>Corporations Act 2001</i> references within the proposed auditing standards and as such, we do not agree with the removal of the “Aus” paragraphs listed within Attachment.</p> |

| ED 02/15 Section or Paragraph | Comment |
|--|---|
| Proposed Auditing Standard ASA 2015-2 Amendments to Australian Auditing Standards (Document 3 of 3) | |
| ASA 210 – point 9 | <p>It is noted that a new guidance paragraph (A20) be inserted in ASA 210 in relation to Other information.</p> <p>We recommend that the new guidance paragraph also include specifically that management/those charged with governance are responsible for the Other information.</p> <p>In addition, we suggest that the illustrative engagement letter within the appendix of ASA 210 be updated to reflect example wording relating to Other information (to be included where applicable).</p> |
| ASA 560– point 30 | <p>We note that the wording of this new paragraph (A11) to be inserted in ASA 210 is quite long and unnecessarily confusing. We don't believe that the wording "..., which might include other information obtained after the date of the auditor's report,..." is required given that the paragraph sits under a specific sub-section and the other wording included within the paragraph.</p> |
| ASA 570 – point 34 | <p>Typo noted in relation to the second sentence of the bullet point for [Aus] Illustration 3A as follows: "...the adverse opinion on financial report..." which should be updated to "...the adverse opinion on <u>the</u> financial report..."</p> |
| ASA 710 – point 52 | <p>[Aus] Illustration 1A and [Aus] Illustration 2A within ASA 710 relate to listed entities, thus even though the additional point relating to other information to be included as part of the circumstances for these illustrations doesn't directly impact the example auditor's report wording within ASA 710, for completeness purposes and to reinforce the reporting requirements for listed entities, we believe it would be better to also make reference to other information expected to be obtained (or not) after the issuance of the auditor's report.</p> |

Appendix 3 – Example of Updated Decision Tree included as [Aus] Appendix 2 of ASA 720

