

The Institute of Public Accountants  
**Submission to AUASB: Exposure Draft 02/15  
on Proposed Auditing Standard ASA 720 'The  
Auditor's Responsibility Relating to Other  
Information'**

August 2015



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS®

10 August 2015

The Chairperson  
Auditing and Assurance Standards Board  
Level 7  
600 Bourke Street  
Melbourne, Victoria 3000  
Australia

Dear Merran

**Exposure Draft: The Auditor's Responsibilities Relating to Other Information**

Thank you for the opportunity to comment on the proposed amendments described in ED 02/15 "Proposed Auditing Standard ASA 720 'The Auditors' Responsibility Relating to Other Information'" and "Proposed Auditing Standard ASA 2015-2 Amendments to Australian Auditing Standards".

The IPA supports the revision to ASA 720 as it provides enhanced guidance and rigour to the auditor's responsibility for other information. The IPA has reservations regarding:

- the conditional nature of 'Other Information' paragraph, and
- The IAASB's decision to specifically exclude guidance on preliminary pronouncements. The IPA thinks that it should have included such guidance. In absence of an ISA addressing the issue, the AUASB should develop guidance in the Australian context.

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice.

Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

The 'Other Information' paragraph of the audit report should not be conditional. It should be included even where the other information has not been provided to the auditor. In circumstances, when no Other Information is expected to be received by the auditor, but is expected to be included with the financial report, the 'Other Information' paragraph should state:

- Management is responsible for the Other Information
- It has not been provided to the auditor by management, and
- Has consequently not been reviewed for consistency with the financial report as required by ASA 720.

The IAASB's basis of conclusion stated that 'preliminary announcements' ('preliminary final reports' in the Australian context) were excluded on the premise that the auditor's responsibility for these documents was dealt with by local law and regulations. It is disappointing that the IAASB neglected the opportunity to establish requirements in this regard and should be encouraged to do so.

The IPA notes no such regulations exist in the Australian context, as such the IPA believes the AUASB should address the issue in the following circumstances:

- Where the audit report accompanies the preliminary financial report (including profit announcements, presentations and analysts packs), and
- Where the auditor has provided audit “clearance” to management or those charged with governance but no audit report has been issued or accompanies the preliminary final report.

The AUASB should consider the effect of the revisions to ASA 720 on ASAE 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document” and ASAE 3450 “Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information”.

Our comments on the detailed questions asked in the Exposure Draft are in the attached appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca ([stephenlagreca@aol.com](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) GAAP Consulting.

Yours sincerely



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## Appendix

### Question 1 – Applicable Auditing Standards ASA 720 & ASA 2015-2

*Have applicable law and regulations been appropriately addressed in the proposed standard?*

#### IPA Response

The IPA believes the AUASB should consider provision of specific application guidance in relation to an auditor's obligations under section 311 of the Corporations Act in instances where the auditor believes there is a material misstatement of Other Information and management and those charged with governance are unwilling to correct the material misstatement.

The IPA is unaware of any other applicable laws or regulations that have not been addressed by the proposed amendments.

### Question 2 – ASA 720 & ASA 2015-2

*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?*

#### IPA Response

The IPA is unaware of any laws or regulations that may prevent or impede the application of the proposed amendments.

### Question 3 – Applicable Auditing Standards ASA 720 & 2015-2

*What, if any, are the additional, significant costs to/benefits for auditors and the business community arising from compliance with this proposed standard? If there are significant costs are expected, do these outweigh the benefits to the users of audit services?*

#### IPA Response

The IPA does not expect the proposed extended requirements to represent a significant cost as the procedures conducted are clarification and extensions of those implicit under the existing standard.

### Question 4 – Applicable Auditing Standards ASA 720 & 2015-2

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

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

## **IPA Response**

The IPA does not support the removal of the “Aus” paragraphs. The IPA would prefer the status-quo to remain.

Furthermore, the IPA believes the removal of “Aus” paragraphs disadvantages smaller firms without technical functions available to issue guidance and templates reflecting Corporations Act implications in relation to International Auditing Standards.

## **Question 5 – Applicable Auditing Standard ASA 720**

*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)?*

## **IPA Response**

The IPA does not envisage much practical difficulty in identifying the other information, that is, the annual report.

## **Question 6 – Applicable Auditing Standard ASA 720**

*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 circumstances? If guidance is considered helpful, what content and form do respondents consider it should take.*

## **IPA Response**

As mentioned in the response to Question 1, the IPA would like to see application guidance on the application of section 311 of the Corporations Act and the associated ASIC regulatory guidance RG 34 “Auditor’s Obligations: Reporting to ASIC”.

## **Question 7 – Applicable Auditing Standard ASA 720**

*Do respondents see any issues with the proposed differential reporting requirements 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?*

## **IPA Response**

The IPA does not see any benefit of the proposed differential reporting requirements of ASA 720. The same responsibilities should apply to all audits.

The IPA believes the proposed reporting framework is flawed as it does not provide a consistent and clear approach for reporting on “Other Information” in the audit report.

The IPA believes regardless of the nature of the entity where there is reason to believe the financial report will be accompanied with “Other Information”, the “Other Information” section of the audit report should be included.

If other information is expected to be obtained after the date of the audit report the “Other Information” paragraph should include the identification of the other information expected to be received after the date of the audit report regardless of the type of entity.

In circumstances when no Other Information is expected to be received by the auditor, but is expected to be included with the financial report, the ‘Other Information’ paragraph should state:

- Management is responsible for the Other Information
- It has not been provided to the auditor by management, and
- Has consequently not been reviewed for consistency with the financial report as required by ASA 720.

### **Question 8 – Applicable Auditing Standard ASA 720**

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

#### **IPA Response**

The IPA notes in the Basis of Conclusions to IAS 720 the IAASB decision to exclude from the scope IAS 720 preliminary announcements of financial information based on the premise that local regulations address the responsibility of auditors in relation to preliminary announcements.

The IPA notes the current status of the audit (not started, in progress or completed) and a copy of the audit report (if the audit is completed) required by the listing rule Appendix 4E, there are no requirements in relation to preliminary announcements (ie preliminary final report) in the Australian context. As such, the IPA believes the AUASB needs to address two issues in relation to preliminary final reports:

- Where the audit is completed, the financial report and audit report form part of the preliminary financial report, the auditor’s obligations in respect to the other information (eg profit announcements and presentations, or analyst packs) under the proposed ASA 720. The IPA believes in these circumstances the auditor’s responsibility is similar to the responsibility in relation to other information included in the Annual Report; and
- Where the preliminary financial report is issued and the auditor has not issued an audit report, but provided “audit clearance” to management or those charged with governance. It is not uncommon for auditors to provide clearance on the “numbers” prior to the release of the preliminary financial report, but no audit report issued. Given the importance of the preliminary financial report (arguably more important than the annual report as it can pre-date the annual reports issue by months and potentially impact the share price) the issue of the auditor’s responsibility for “numbers” they provide clearance upon needs to be addressed in the context of the content of the preliminary financial report.

In addition to the above issues, the AUASB needs to consider whether the principle reflected in the revision of ASA 720 should also be incorporated in ASAE 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”, ASAE 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document” and ASAE 3450 “Assurance Engagements Involving Corporate Fundraisings and/or Prospective Financial Information”.