

June 2015

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

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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ISSN 2201-3644

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*Important Note and Disclaimer*

This Explanatory Memorandum is issued by the AUASB to provide information to auditors and assurance practitioners about the AUASB’s implementation in Australia of the IAASB’s revisions to ISA 720 *The Auditor’s Responsibilities Relating to Other Information*.

This Explanatory Memorandum does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## EXPLANATORY MEMORANDUM

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

1. The aim of this Explanatory Memorandum is to provide constituents with information about Exposure Draft: **ED 02/15**, issued on 12 June 2015, and the Auditing and Assurance Standards Board’s (AUASB) approach to implementing in Australia, the revision to ISA 720 *The Auditor’s Responsibilities Relating to Other Information*, of the International Auditing and Assurance Standards Board (IAASB). As the revisions to ISA 720 have been made as part of the IAASB’s enhanced auditor reporting project, they are related to the AUASB’s recent issuance of ED 01/15 on 30 April 2015.
2. For more information on ED 01/15 refer:  
<http://www.auasb.gov.au/News/AUASB-invites-comments-on-Exposure-Draft-01-15---enhancements-to-auditor-reporting>  
[http://www.auasb.gov.au/admin/file/content102/c3/1\\_ED\\_01-15\\_Explanatory\\_Memo.pdf](http://www.auasb.gov.au/admin/file/content102/c3/1_ED_01-15_Explanatory_Memo.pdf)

### Composition of ED 02/15

3. ED 02/15 contains proposals for the following suite of auditing standards:

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

### **Exposure Draft Questions**

4. The AUASB is especially interested in constituents’ views on:
- (a) 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 significant costs are expected, the AUASB would like to understand:
    - (i) Where those costs are likely to occur;
    - (ii) The estimated extent of costs, in percentage terms; and
    - (iii) Whether expected costs outweigh the benefits to the users of audit services?
  - (b) Whether the removal of (only) “Aus” paragraph references to the *Corporations Act 2001* and *non-Corporations Act 2001* references —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?
  - (c) 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)?
  - (d) 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.
  - (e) 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?

### **Background**

#### **IAASB**

5. The stated objective of the IAASB’s revision of ISA 720 “was to ensure that the ISA continues to be capable of enhancing the credibility of financial statements through specifying appropriate responsibilities of the auditor relating to the range of other information in documents containing audited financial information, taking account of how such information is disseminated.” The revision comes as part of wide ranging changes the IAASB has issued aimed at enhancing the informational value of the auditor’s report to users and incorporates auditor reporting on other information dependent on whether the entity is listed in certain circumstances. The IAASB has also renamed the title of the standard from ISA 720 *The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* to ISA 720 *The Auditor’s Responsibilities Relating to Other Information*.

6. The application date for the IAASB’s revisions to ISA 720 is for financial statement periods ending on or after 15 December 2016. This is consistent with the already issued enhancements to auditor reporting (now contained in the AUASB’s ED 01/15).

*Expected Benefits*

7. In revising ISA 720, the IAASB sought to:
- Improve **audit quality** through bringing greater consistency regarding auditors’ consideration of the diverse range of other information;
  - Increase the **value of the audit**, without changing its scope, in a cost beneficial manner, through **enhancing the auditor’s responsibilities** with respect to the other information; and
  - Improve **transparency** by requiring auditors to articulate in their (auditor’s) reports their responsibilities under the ISA 720 and the outcome of their work relative to the other information.
8. Further details can be found on the IAASB’s website: <http://www.ifac.org/auditing-assurance>
- **At a Glance**  
<http://www.ifac.org/system/files/publications/files/ISA-720-%28Revised%29-At-A-Glance.pdf>
  - **Basis for Conclusions**  
<http://www.ifac.org/system/files/publications/files/ISA-720-%28Revised%29-Basis-for-Conclusions.pdf>
  - **ISA 720 and related conforming amendments**  
<https://www.ifac.org/system/files/publications/files/ISA-720-%28Revised%29.pdf>

*AUASB*

9. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council’s (FRC) Strategic Direction, the AUASB’s policy is to adopt the IAASB’s auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
10. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB’s policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
11. The AUASB’s principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB’s website:  
[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)
12. The AUASB has decided to adopt the revised ISA 720 and amended ISAs, relating to the auditor’s responsibilities related to other information, into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001*. Prior to implementation, the AUASB is required to consult with constituents and accordingly now issues Exposure Draft ED 02/15 for public exposure and comment. All comments received from constituents are considered by the AUASB prior to finalisation of the proposed new, revised or amended standards.

## The AUASB’s Approach

### Exposure Drafts

#### Timetables

13. As is customary, the AUASB develops its exposure drafts from the *issued* ISA equivalent standards. The IAASB issued the main suite of auditor reporting standards in January 2015 (these standards form the basis of the AUASB’s **ED 01/15**). The related standard dealing with the auditor’s responsibilities relating to other information (issued by the IAASB in April 2015) forms the basis of the AUASB’s ED 02/15. The standards comprising the AUASB’s Exposure Drafts are as follows:

**This ED 02/15: Issued on 12 June 2015 for 60 day exposure (closes 10 August 2015)**

<b>ASA 720</b>	<i>The Auditor's Responsibilities Relating to Other Information</i>	<b>Revised</b>
<b>Several</b>	<i>ASAs 210, 230, 260, 450, 500, 510, 560, 570, 580, 600, 700, 701, 705, 706, 710 and 810</i>	<b>Conforming Amendments</b>

**ED 01/15: Issued on the 30 April 2015 for 60 day exposure (closes 30 June 2015)**

<b>ASA 700</b>	<i>Forming an Opinion and Reporting on a Report</i>	<b>Revised</b>
<b>ASA 701</b>	<i>Communicating Key Audit Matters in the Independent Auditor’s Report (KAM)</i>	<b>New</b>
<b>ASA 705</b>	<i>Modifications to the Opinion in the Independent Auditor’s Report</i>	<b>Revised</b>
<b>ASA 706</b>	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</i>	<b>Revised</b>
<b>ASA 570</b>	<i>Going Concern</i>	<b>Revised</b>
<b>ASA 260</b>	<i>Communicating with Those Charged with Governance</i>	<b>Revised</b>
<b>Several</b>	<i>ASAs 210, 220, 230, 510, 540, 580, 600 and 710</i>	<b>Conforming Amendments</b>

14. Due to the IAASB’s expected staggered issuance of the remaining standards, the revision of which also impacts on the enhancements to auditor reporting, the AUASB expects to issue two further exposure drafts as follows:

**ED 03/15: Expected issuance after the 28 July 2015 AUASB meeting**

<b>Disclosures (Several)</b>	Amendments to several standards including those that may have been included in EDs 01/15 and 02/15	<b>Amending standard</b>
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**ED 01/16: Expected issuance after the February 2016 AUASB meeting**

<b>ASA 800</b>	<i>Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i>	<b>Revised</b>
<b>ASA 805</b>	<i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> [Not issued under the <i>Corporations Act 2001</i> ]	<b>Revised</b>
<b>Several</b>	Amendments to several standards including those that may have been included in EDs 01/15, 02/15 and 03/15	<b>Amending standard</b>

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### *Methods Used*

15. As indicated in the table above, the construct of each exposure draft differs according to the nature of the changes, namely:
  - (a) Standards that have significant changes indicate they have been revised and are labelled as such by the IAASB. These standards will replace the relevant existing Australian Auditing Standards (e.g. ASA 720 within **ED 02/15**).
  - (b) Standards that are affected by conforming amendments do not impose original requirements. Accordingly, changes of this nature are dealt with through an amending standard. An amending standard is a legislative mechanism that facilitates minor changes to an existing standard. A “compiled standard” is the result of an existing standard adjusted by an amending standard(s). All Exposure Drafts are expected to have conforming amendments.
  - (c) A Standard that is new (i.e. ASA 701 (KAM) within ED 01/15) is not a replacement or revision. This standard will be a new addition to the suite of Australian Auditing Standards.

### *Exposure Draft Protocols*

16. Under its convergence policies, the AUASB continues to include requirements and guidance that are in addition to, or a clarification of, the equivalent ISA only when the compelling reason test has been met. Any such modifications continue to be identified in the Australian Auditing Standards by paragraph numbering commencing with an “Aus” prefix. Any such changes do not diminish the requirements of the equivalent ISA.
17. In addition to those changes that meet the compelling reason test, the AUASB makes format and terminology changes to comply with requirements relating primarily to legislative instruments. Such changes are machinery in nature and do not change the meaning of the equivalent ISA.

### *AUASB Modifications to the ISAs*

18. In line with the AUASB’s policy of convergence with the standards of the IAASB (see link at paragraph 11 above), the AUASB proposes to delete:
  - Existing modifications from the equivalent ISAs (i.e. “Aus” paragraphs), contained within the Australian Auditing Standards, where the compelling reason test has not been met.
  - References included within the existing Australian Auditing Standards, to requirements contained in other laws or regulations, including those to the *Corporations Act 2001*.

[The basis of this decision is that compliance with such requirements means compliance with *those* laws or regulations, not compliance with the Australian Auditing Standards. For example, a requirement to report under section 311 of the *Corporations Act 2001*, is a requirement under that Act and not under an Auditing Standard.]
19. Accordingly, a number of “Aus” paragraphs, described in paragraph 16 above, that are contained within existing standards have been removed from the proposed standards—see **Appendix 1** to this Explanatory Memorandum for a listing and description of these paragraphs.

### *General*

20. All exposure drafts (EDs) will be open to constituents for a **60 day comment period**.

21. Each subsequent ED will include, where applicable, the amendments from the previous ED(s) to enable clarity of the accumulated changes to the standards. Constituents are asked to limit their comments to the relevant ED, however, where a comment or a substantive issue (only) relating to a prior ED needs to be made, constituents are asked to identify the issue separately and where applicable indicate the effect, if any, on the subsequent ED(s).
22. At the completion of each exposure period, the AUASB will consider constituents’ submissions and where the AUASB determines that compelling reason exist, amendments to the exposure draft will be made.
23. On a progressive basis, the AUASB intends to provide *preliminary approvals* to the final standards. The preliminary approved versions of the standards will be available on the AUASB website. All standards included in the 2015 exposures – 01/15, 02/15 and 03/15 are intended to be finalised and issued in 2015. **ED 01/16** is intended to be finalised and issued in early 2016.

#### **Other Outreach Activities**

24. In addition to the public exposure process, the AUASB intends to:
  - (a) Conduct roundtable consultative meetings; and
  - (b) Hold specific discussions with a selection of constituents.

#### **Post Implementation Review**

25. The AUASB intends to conduct a post implementation review of the enhancements to auditor reporting, including the auditor’s responsibilities relating to other information. The AUASB’s post implementation review will feed into, and be informed by, the post implementation reviews of the IAASB and the NZAuASB.

#### **Application**

26. The entire suite of Auditing Standards relating to auditor reporting enhancements, including the auditor’s responsibilities relating to other information, are applicable for financial reporting periods **ending on or after 15 December 2016**. This application date corresponds with that of the equivalent ISAs.

#### *Early Adoption*

27. Consistent with the IAASB’s policy, all Australian Auditing Standards may be early adopted unless explicitly prohibited. Early adoption, in this context, is intended by the AUASB to mean adoption of the entire suite of Auditing Standards relating to auditor reporting enhancements and revised ASA 720 *The Auditor’s Responsibilities Relating to Other Information*.

#### **Key Enhancements resulting from revisions to ASA 720**

28. For all audits:
  - Broadening and clarifying the **scope** of other information to be the “annual report”.
  - Clarifying and enhancing the **auditor’s work effort** on the other information.
  - Retention of key existing concept that the auditor does **not audit the other information** and that consequently no assurance is expressed on the other information.
  - Other Information **reporting** in certain circumstances (refer paragraphs 29. and 30. below)

29. In respect of the auditor’s report for audits of listed entities:
- **Inclusion of a new section in the auditor’s report** on other information to communicate to users:
    - Management’s and the auditor’s responsibilities related to the other information;
    - Identification of the other information;
    - A statement that the auditor’s opinion does not cover the other information (no assurance is expressed); and
    - In respect of the other information:
      - Whether the other information has been received prior to the date of the auditor’s report, and if so, the results of the auditor’s work performed on the other information; or
      - If the other information has not been received, that it is expected to be obtained after the date of the auditor’s report.
30. In respect of the auditor’s report for other than listed entities:
- **Conditional inclusion of a new section in the auditor’s report** on other information only if some or all of the other information has been received prior to the date of the auditor’s report. Auditors are to communicate to users:
    - Management’s and the auditor’s responsibilities related to the other information;
    - Identification of the other information;
    - A statement that the auditor’s opinion does not cover the other information (no assurance is expressed); and
    - In respect of the other information, that it has been received prior to the date of the auditor’s report, and if so, the results of the auditor’s work performed on the other information.
  - If other information not received prior to the date of the auditor’s report, then no other information section is required to be included in the auditor’s report.

## **Website Resources**

31. The AUASB welcomes constituents’ input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Constituents are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

\* \*

**Appendix 1**

(Ref: Para. 19)

**LISTING OF EXISTING “AUS” PARAGRAPHS PROPOSED TO BE REMOVED FROM PRE-EXISTING STANDARDS IMPACTED BY REVISIONS TO ASA 720**

*Table 1: References to the Corporations Act 2001*

<b>Standard</b>	<b>Paragraph Reference</b> <small>[Shaded = Requirement]</small>	<b>Paragraph Text</b>
560	Aus 12.1	For an audit engagement conducted under the <i>Corporations Act 2001</i> , management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.
810	Aus 1.1	Auditors that are required to issue an auditor’s report on a concise financial report prepared under the <i>Corporations Act 2001</i> and Accounting Standard AASB 1039 <i>Concise Financial Reports</i> should refer to guidance contained in GS 001 <i>Concise Financial Reports</i> .

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**Table 2: *Other References***

<b>Standard</b>	<b>Paragraph Reference</b> [Shaded = Requirement]	<b>Paragraph Text</b>
450	Aus A1.1	The Australian Accounting Standards explain the role of materiality in making judgements in the preparation and presentation of financial reports by the entity.
560	Aus A3.1	In some cases, law or regulation may identify the point in the financial reporting process at which the audit is expected to be complete.
810	Aus 14.1	In circumstance where the auditor’s report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor’s report on the summary financial statements.
810	Aus A18.1	ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report, which may be helpful in applying the requirement in paragraph 23.
810	Aus A19.1	ASA 720 contains requirements and guidance relating to reading other information included in a document containing the audited financial report and related auditor’s report, and responding to material inconsistencies and material misstatements of fact. They may be helpful in applying the requirement in paragraph 24.

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