



14 March 2013

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue, 6th Floor
New York, New York 10017

Submission via IAASB website

Dear Professor Schilder

Exposure Draft International Standard on Auditing ISA 720 (Revised)

The Institute of Chartered Accountants Australia is please to respond to the Exposure Draft of International Standard on Auditing ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 72,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 60,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide. charteredaccountants.com.au

Meeting market needs

Business is a dynamic environment and we strongly believe that the auditing profession needs to be dynamic to continue to meet the needs of the business community. In this regard we welcome the IAASB's invitation to comment on ideas to expand the role of the audit.

Changes in any standard bring additional cost and potential risks to business, as users, entities and auditors establish parameters and options to implement changes. As such we assess all proposals in terms of public benefit and meeting the objectives of the change.

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We agree that there has been an “evolution in the matter in which an entity disseminates and communicates information to its stakeholders”. However we have not seen evidence that users expect or require other types of company information to be part of the financial statement audit.

Rather, we suspect user demand is for assurance over this other information. This market need will be not met by extending the auditor’s obligation to ‘read’ other information.

Indeed we believe that the proposals as they stand have a strong potential to increase user confusion. The range of material that may or may not be included in the opinion and the obligation for auditors to read information after signing the audit report introduces a level of uncertainty over what is within the scope of the audit which does not currently exist.

Similarly we are concerned that introducing an additional opinion into the audit report will confuse the market. The opinion is over one part of the overall audit process which may raise questions as to why it is being added when other parts of the audit process do not have separate opinions. Also it will be unclear to users what comfort can be taken from this opinion, which is not an audit or review or separate assurance.

We support the IAASB advancing their discussions over other information further but in the framework of separate assurance being provided.

We support the proposals to extend the core audit requirement over reading other information included in financial reports, because we believe this will provide additional value to the users. We provide further detail on these points in the Appendix to this letter.

We also urge the IAASB to consider these matters in conjunction with the auditor reporting initiatives.

If you require further information on any of our views, please contact Liz Stamford, Head of Audit Policy via email at lizstamford@charteredaccountants.com.au.

Yours sincerely



Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

In this appendix, we set out specific comments in relation to the questions raised in the Invitation to Comment. In summary we:

- welcome the proposals to clarify and extend the auditors' responsibilities to read and consider other information included in the financial report
- do not agree with the extension of the "read" requirement to other information as we believe that, in order to meet user needs, assurance would be necessary
- do not agree with including a reference to the auditors' obligations to "read" as a separate opinion in the audit report. If further reference to the work in this area is considered necessary, it should be in the auditors' responsibilities section.

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 reflects costs and benefits appropriately and is in the public interest?

We believe that there is user appetite in the market to have assurance over other information provided by companies. However, we do not believe that extending the auditor's responsibilities with respect to the other information in the manner proposed by the exposure draft is appropriate. We believe that there are significant issues in operationalising the standard as drafted which will bring a level of cost and complexity well in excess of any potential benefit. We also believe that there is a high likelihood that users will misinterpret the conclusion in the auditor's report as providing assurance and this is not in the public interest.

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?

No. We do not think expanding the scope of the auditor's responsibilities with respect to other information as proposed is appropriate. We have not seen evidence that users expect other information to be part of the financial statement audit. Nor have we seen evidence that users currently misunderstand the audited status of this other information. Any calls for auditor involvement in relation to other information tend to arise from a desire for assurance over the information.

We believe that it would be more appropriate for guidance to be developed to facilitate practitioners being able to provide assurance on other information where management engage them to do so.

If the board proceeds with a revision of ISA 720 to require an explicit statement by the auditor on other information, we think the scope should be limited to the other information included in the financial report and then additional assurance on any other documents can be agreed between the company and the auditor and separate opinions or conclusions provided.

The inclusion of a statement that provides no assurance within the auditor's report on the financial report is confusing and potentially misleading to users of the financial reports. The proposal at present also results in the situation where the auditor will be reporting in the auditor's report on some of the other information (that available at the time the audit report is signed) but only reporting on an exception basis on other pieces (which were not available at the date of the auditor's report but were finalised by the entity prior to the initial release date). We do not think that users will understand this difference.

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 statements are issued as defined in ISA 560?

We recognize the difficulty of introducing a term internationally which will have many different interpretations based on country specific reporting regimes. We are providing comment on the term “initial release” to assist IAASB discussions in relation to providing assurance on other information. As stated above, we do not agree with incorporating this other information into the core financial statement audit process.

If maintained, we recommend that the board consider aligning the definition with the ISA 560 definition as we are uncertain why the two dates should be different. Alternatively, the auditor’s report should set out what the initial release event is, because it may vary between companies.

We also believe that the requirement to make an explicit statement in the auditor’s report on some of the information and then deal separately with any other information that was not available at the date of the auditor’s report is problematic. We think that it is likely that users will wrongly assume that all the other information is subject to assurance procedures.

As well as causing confusion for users as to what has been read by the auditor, there are potential issues in relation to updating audit files and working papers and file archiving, connected with requiring auditors to undertake work after the date of their audit report.

4. Do respondents agree that the limited circumstances in which a 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?

We believe that securities offerings documents should be scoped out of the standard. Most jurisdictions, including Australia, have specific requirements in relation to assurance provided on these documents and to comment on them with “no assurance” in the auditor’s report on the financial statements is likely to conflict with these requirements and confuse users of the offering documents which is not in the public interest.

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?

We believe the term “In light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable however it is also subjective. Auditors will perform additional procedures in relation to the other information, particularly other information that is obtained after the date of the auditor’s report being signed, so the phrase is also potentially misleading to users.

(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?

Consistency is a subjective term. We believe it would be more appropriate to use “read and consider for material inconsistency” as this term can be more easily interpreted and applied by the practitioners.

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?

We agree that an omission can be an inconsistency. However, we believe that characterizing and identifying omissions may prove difficult if the range of other information is too wide and may lead to disagreements between management and the auditor as to whether a particularly piece of information needs to be included in a particular document. The preparation of the other information is the responsibility of management and, in the absence of a clearly defined framework for the preparation of the information; it is management who have the responsibility to decide which information should be included, not the auditor.

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 auditor’s understanding of the entity and its environment acquired during the course of the audit?

No. We think that it is likely that users will assume that the other information has been subject to assurance procedures given that the opinion has been included in the auditor’s report.

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?

We are supportive of principles based auditing standards. However, in the standard as drafted, there are several pages of guidance to explain the requirements contained in one paragraph. We have concerns that if the requirement needs this level of explanation, it is not clear.

(b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?

As discussed above, we believe that the scope of other information in a revised ISA 720 should be limited to the other information included with the financial report. Any other information the company chooses to make in relation to the company’s financial position should be subject to assurance, and which should be provided as a separate engagement.

(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?

No. We believe that there is a clear need for an extension of the work that will be performed by auditors in order to enable them make a positive statement about the other information. We also believe this will increase audit costs as the work will necessarily be performed by senior engagement team members. It will also put pressure on audit timetables given the schedules on

which other information which may accompany the initial release of the financial reports is prepared (ie documents presented at an AGM are frequently not finalized until very close to the AGM date).

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

The examples are useful.

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?

We believe that the requirements should be linked back to the requirements of ISA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, ISA 330 *The Auditor's Response to Assessed Risks* and, where the auditor's report has been signed by the time such a discovery is made, with the requirements of ISA 560 *Subsequent Events* so that there is a consistent approach to a revision of the auditor's assessment of risks due to the change in understanding.

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?

The terminology used could be misunderstood by users.

(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?

We think that it is likely that users will assume that the other information has been subject to assurance procedures as an opinion is being included in the auditor's report.

We believe that it is likely that users will misinterpret the level of assurance provided as being limited or reasonable assurance despite the disclaimer in the conclusion. If no assurance is being provided, we believe, that it would be more appropriate to only report on an exception basis.

We also recommend that there should be wording to make it clear that management and those charged with governance are responsible for the preparation and presentation of the other information.

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?

If there is an appetite for assurance of other information in the market, then standards or guidance to facilitate this can be developed so that assurance, separate to the opinion on the audit of the financial statements, can be provided. Such assurance could be reasonable or limited, depending on the nature of the other information.