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Ref: DAH

14 March 2013

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
Submitted via IAASB website

Dear Mr Gunn

**EXPOSURE DRAFT 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"**

We appreciate the opportunity to provide our comments on this Exposure Draft. Pitcher Partners is an association of independent firms operating from all major cities in Australia. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities and small to medium sized enterprises.

We have a number of *serious concerns* regarding the proposals in this exposure draft as described in points 1-6 below.

**1. Reporting – inclusion of a statement in the auditor's report**

We have serious concerns about inclusion of a statement in the auditor's report concerning material inconsistencies in "other Information." Despite the statement "...we have not audited or reviewed the Other Information..." inclusion of this reference to "Other Information" is likely to prompt readers to *take* assurance from this statement even though no assurance is provided.

The concerns that users of financial reports *take* assurance when they see the name of a reputable audit firm associated with financial information has previously been acknowledged by the IAASB, for example when a compilation report is provided with unaudited information in accordance with ISRS 4410. We consider that a statement in the auditor's report will introduce a new expectation gap regarding the auditor's involvement with that Other Information.

## 2. Reporting – auditor’s ability to detect a material inconsistency

If an auditor is expected to include a statement concerning Other Information as suggested in the guidance in paragraphs A57 and A58, it is not feasible that an auditor could simply *read* this information. The auditor would need to cross-check the “other financial information” with the financial information in the financial report to be confident in making a *definitive statement* that “We have not identified material inconsistencies in the Other Information.”

In addition to perpetuating the expectation gap, this process is likely to be costly.

In the context of the examples of quantitative and qualitative financial information included as examples in the Appendix, the requirement to make this statement concerning Other Information (despite issues of cost) is feasible as it would be possible for the auditor to check whether or not the other information was reasonable.

However, the auditor’s ability to make these statements when the audit client includes industry specific information is not feasible in the absence of using an auditor’s expert. Even if this strategy was followed, it is problematic as an industry expert is unlikely to have a detailed understanding of the significance of financial reporting disclosures.

For example consider the nature of Other Information provided by entities that operate in the following industry segments:

- Utilities – other information concerning geothermal research and development; CO<sub>2</sub> to coal conversion technology;
- Exploration and mining – other information relating to permits and licences; geological reports; estimated reserves; exploration and operational summaries;
- Pharmaceuticals, biotechnology or life sciences – other information relating to progress of various specific research and development projects.

This list of industries is not exhaustive. In contrast to the examples provided in the Appendix to the Exposure Draft, it is often not feasible for the auditor to determine whether or not the detailed disclosures in the Other Information are consistent, beyond a general understanding of the topic described. Explanations of these types of issues are often provided in an (unaudited) review of operations, presented with the financial report for companies operating in these industries in Australia.

## 3. Documentation

We have serious concerns regarding the adequacy of the requirement in paragraph 20 and guidance in paragraph A65 to simply “retain a copy of the documents on which the auditor has performed work under this ISA.”

The work performed is “to read and consider” as required by paragraph 11 and documentation requirements that demonstrate “consideration” of a matter “in the light of an auditor’s understanding... ..acquired during the course of the audit” suggests that cross-referencing will be required as a minimum.

However, as indicated in point 2 above, there may not be suitable supporting documentation on the audit file to support the detailed content presented in “Other Information”. We consider that these requirements will place onerous obligations on the auditor and especially where an auditor’s expert is needed to work with the financial audit team to confirm there is no material inconsistency in the Other Information or misstatement in the financial report. Alternatively, if a lower level of consultation is followed in respect of industry-specific information, the expectation gap will be perpetuated.

#### **4. Expansion of the scope of audit examination**

We consider that the explicit inclusion of documentation requirements in this ISA, together with the requirement to make a statement in the auditor’s report, significantly expand the scope of the audit. Audit fees are under pressure across the profession globally and this expansion of scope with the associated increase in costs will further aggravate the audit market. Alternatively, these requirements will limit management’s ability to disclose additional information to the market in order to avoid audit intervention.

#### **5. Blurring of management and auditors’ responsibilities**

We consider that the expansion of scope of auditors’ responsibilities in respect of Other Information blurs the distinction between management and auditors’ responsibilities. Management will not be restrained in providing information *except* at the time the financial report is first issued. We consider that the limitation to information provided to users that is likely to follow introduction of this standard, is not in the public interest, and not in the interest of improving the credibility of audit services.

#### **6. Recommendation**

We concur with the requirement for auditors to read and consider Other Information presented with the financial report. However we recommend:

- There should be no explicit documentation requirements within the ISA; the requirements of ISA 230 *Audit Documentation* and ISA 500 *Audit Evidence* apply to all audit procedures.
- The auditor should make a statement in the auditor’s report concerning Other Information *only when* a material inconsistency is identified, which remains uncorrected by management.

#### **Specific requests for comment**

**Q1: Not agreed** - refer to issues raised under points 4 and 5 above

**Q2: Not agreed** – refer to issues raised under points 2 and 4 above

**Q3:** We concur with the concept of initial release and consider that it is clear and understandable. Although the date of the initial release could be different from the date the financial statements are issued, in our experience, this is not likely to happen.

**Q4:** We consider that securities offering documents should be scoped out of this ISA. The full extent of information that may be provided in an offer document should not be subject to audit scrutiny, unless that requirement exists in local regulations concerning offer documents.

**Q5:** We consider that the objectives are clearly stated, but onerous. Refer to issues raised under point 3 above regarding documentation.

**Q6:** We concur with the definitions of terms as provided.

**Q7:** We consider that users will have a confused understanding of the auditor's responsibilities in respect of Other Information as a consequence of statements made in the Auditor's Report. Refer to issues raised under point 1 above.

**Q8:** We consider that the nature and extent of the auditor's work with respect to Other Information will expand the scope of the audit and antagonise directors who wish to include additional information with their financial report, without incurring increased costs. Refer to issues raised under points 4 and 5 above.

**Q9:** If the Other Information presented with financial reports was *limited* to the examples of quantitative and qualitative information provided in the Appendix, carrying out the requirements of this ISA might be feasible. However, Other Information is often significantly more complex than anticipated by this ISA – refer issues raised under point 2 above. Consequently, the Appendix provides very limited guidance.

**Q10:** We consider that the proposed requirements, if an auditor discovers that the prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete, are clear.

**Q11:** We consider that the phrases "read and consider" "in light of our understanding..." are clear and understandable, but extremely onerous. Refer to issues raised under points 3 and 4 above.

**Q12:** We consider that the auditor should not provide any assurance, and should not *appear* to provide any assurance with respect to Other Information, unless explicitly engaged to provide that assurance by the audit client. This ISA is likely to introduce a new expectation gap in respect of the auditor's involvement with Other Information. Refer to issues raised under point 1 above.

Please do not hesitate to contact us if there are any matters arising from this submission which you would like to discuss further.

Yours faithfully  
PITCHER PARTNERS



S D AZOOR HUGHES  
Partner