

14 March 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Dear Mr Gunn,

**Exposure Draft on 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**

Attached is the Australasian Council of Auditors–General (ACAG) response to the exposure draft referred to above. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the IAASB's initiative to revise the standard to ensure it is sufficient. However, as outlined in the attached comments, ACAG is concerned that the proposals will increase the expectation gap. It is unlikely that users will appreciate that the depth of the auditor's understanding of the entity and its environment may not be sufficient to meaningfully consider all elements of the other information. Further, the extent of procedures outlined in the guidance, and the reference to work performed on other information in the auditor's report both have potential to widen the expectation gap for users of auditors' reports.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Specific questions on ISA 720

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?

ACAG supports the IAASB's move to require other information to be considered in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. As the corporate reporting environment has been subject to a number of developments in recent times, ACAG believes that clarifying the auditor's responsibilities with respect to 'other information' is in the public interest.

As noted below, ACAG is concerned about the potential for inference by users that a higher level of assurance is being provided than intended; despite disclaimers that an audit or review has not been performed.

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?

Subject to our comments below, ACAG supports the broadening of the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon, if such documents have a purpose of providing commentary to enhance the user's understanding of the audited financial statements.

Further clarification of what is meant by 'a document that is issued by the entity' would be helpful (paragraph 9(c)). For example, during an annual general meeting, a presentation may be given to accompany the release of the audited financial statements. Under the revised standard, would auditors be expected to 'read and consider' information in, for example, a powerpoint presentation?

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?

The definition of initial release is clear and is easily identifiable by the auditor as being different from the concept of the date the financial statements are issued per ISA 560.

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?

ACAG provides no comment on this.

5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:

ACAG considers that the objectives of the proposed ISA are clear.

(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?

The terminology ‘in light of the auditor’s understanding of the entity and its environment acquired during the audit’ is generally understandable for an auditor. The guidance is helpful in outlining expectations as to the auditor’s work in considering the other information. However, some of the guidance examples provided in paragraphs A37 to A43 go beyond the general understanding of ‘read and consider’.

However, further clarification about information in documents within scope of the proposals, but outside of the auditor’s understanding of the entity and its environment, would be welcome. The requirements of paragraph 11 to ‘...read and consider the other information **in light of the auditor’s understanding of the entity and its environment** acquired during the course of the audit’ are difficult to align with the guidance. The last sentence in A13 indicates that the auditor must at least ‘read and consider’ information which may be outside of the auditor’s understanding of the entity and its environment but is still within scope. A36 states that the auditor exercises professional judgment in focusing the auditor’s consideration of the other information, using factors including whether the other information is closely related to the financial statements or the auditor’s understanding of the entity and its environment. However, if the information is outside of the auditor’s understanding of the entity and its environment, it is still unclear what work needs to be performed to satisfy paragraph 11 and the proposed objective in paragraph 8.

(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?

ACAG considers that it would provide clarity to explicitly refer to the financial statements in paragraph 11, such as “...in light of the audited financial statements and the auditor’s understanding of the entity and its environment acquired during the course of the audit.”

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?

What is captured by the definitions generally seems appropriate in light of the spirit of the standard. However, usage of the term ‘inconsistency’ as the generic descriptor for the issues described in the definition differs from its general usage. This is, however, more likely to be a problem with the auditor referring to this terminology when communicating with non-auditors than it would for auditors interpreting and applying the standard. ACAG considers that it would be more appropriate for the standard to provide latitude to the auditor in using language tailored to the circumstances for inclusion in the auditor’s report.

In addition, the second limb (i.e. 9(a)(ii)) of the definition of inconsistency could benefit from further clarity. There is the potential for confusion as to whether an omission of a critical fact in, for example, a narrative description, meets the definition of inconsistency, or whether the omission must relate to ‘presentation’ to meet the second limb of the definition. It could perhaps be clearer to remove the words ‘Is presented in a way that’ from paragraph 9(a)(ii). Alternatively, if it is the IAASB’s intention to narrow the scope of the proposed ISA so only omissions associated with the presentation are considered, this should be clarified.

Requirements regarding omissions from other information may give rise to particular complexities. The auditor may be aware of additional information, gained through their understanding of the entity and its environment acquired during the course of the audit, which they believe would assist in giving users a proper understanding of the matter being addressed in the other information but which management and those charged with governance do not wish to be made publicly available. It is likely that these situations in particular will require judgement to resolve in line with paragraph 12.

The auditor may also be aware of information that has not been provided anywhere in the other information that may reasonably impact the economic decisions of users. The current definition of inconsistency may include this as an inconsistency and therefore place the onus on the auditor to determine the completeness of other information.

The above suggestions would result in a definition that reads:

9(a)(i) Contains information that is incorrect, unreasonable or inappropriate; or

(ii) obscures information that is necessary to properly understand the matter being addressed in the other information; or

(iii) omits information that is necessary to properly understand matters already included in the other information.

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?

As noted under question 6, ACAG is concerned that the term 'inconsistency' may cause confusion when the auditor is referring to omissions or inaccuracies.

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?

ACAG supports the principles-based approach to determining work to be undertaken as the extent of the auditor's work depends on the nature of the 'other information'. It would not be practical to develop requirements for every possible situation.

(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?

The categories of other information and guidance on the work effort are helpful and appropriate.

(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?

ACAG does not 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. For example, paragraph A37(c) requires for directly reconcilable financial information the auditor to obtain a reconciliation from management and agree items in the reconciliation to the audited financial statements and determine whether the calculations within the reconciliation are arithmetically accurate. This work would be additional to what is required to support the auditor's opinion on the financial statements. Further examples of work which is beyond that necessary for the auditor to express an opinion on the financial statements include where:

- program costs are reported in various parts of the Annual Report – these would need to be reconciled back to the financial statements;
- press releases would need to be 'read and considered'.
- information contained in 'in scope' documents that does not pertain to financial reporting or processes (as discussed in more detail under question 5(a) above).

Such work would involve an increase in time and cost of an audit.

Importantly, the degree of work outlined in the guidance increases the expectation gap as users may interpret that the nature and amount of work undertaken by the auditor provides a degree of assurance over the other information.

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

The examples in the Appendix are helpful.

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?

ACAG considers that further clarification of the requirements would be helpful. In particular, it would be helpful for the application guidance to explicitly cross-reference to relevant parts of ISAs 315 and 330 (for example ISA 330 paragraph 25).

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?

ACAG's view is that a typical interpretation of ‘read and consider’ could be that one has read something, and ‘thought’ about what they have read. This interpretation is inconsistent with the degree of work proposed in the exposure draft. However, ACAG is mindful of the risk that the expectation gap will be increased if details of the consideration of other information is given too much prominence in the auditor's report.

(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?

ACAG believes that the inclusion of reference to having read and considered other information will widen the expectation gap for users of auditor's reports. The inclusion of a statement about the result of the ‘read and consider’ implies a conclusion as to whether any inconsistencies were noted amplifies this view. This would appear to be inconsistent with paragraph 15 of the International Framework for Assurance Engagements.

In ACAG's view there is limited mitigation of this effect by the direct statements that no audit opinion or review conclusion is provided.

Further, the statement ‘we have not reviewed the other information’ (as outlined in paragraph A57) may be misinterpreted by users of the report to mean that the auditor has not in fact read or considered the other information, as the concept of a review engagement is arguably still widely misunderstood.

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?

Question 11(b) implies that no assurance is expressed. We concur that this is the appropriate level.

However, notwithstanding statements by the auditor that no audit or review has been performed, the work performed on 'Other information' in accordance with the draft proposals in ISA 720 potentially meets the definition of an assurance engagement per the IAASB's Glossary of Terms where a conclusion is expressed. In ACAG's view, given the depth of requirements in the guidance, in substance it would seem that a review engagement has been conducted. Certainly there is a risk that users will interpret the work performed as providing assurance, which widens the expectation gap.

Although it appears that the IAASB does not intend for assurance to be provided on other information, if it is accepted that a degree of assurance is being provided, it stands that this should be less than that ordinarily provided in a limited assurance engagement.

Other comments

Final version

The proposed requirements to obtain the final version of the documents within the scope of the standard could pose practical problems. The auditor would need to have clear representation from the client that the auditor will be advised if what is presented to the auditor as the final version is changed between presentation to the auditor and issuance of the auditor's report.

Further, in the public sector, where an annual report is prepared and tabled in parliament, there can be multiple layers of review between management and tabling (for example Ministerial offices) which can mean it could be impossible to obtain the final version until very shortly before the tabling of the annual report. Further, there can be many months between the issuance of the auditor's report and the issuance of the annual report. The auditor may not, even on request, be kept informed as to when the report is to be tabled in parliament.

It could also be that the auditor is placed in a difficult position when the final version of the other information is provided very close to the release of the auditor's report, particularly where the auditor's report must be completed by a date set out in legislation. It would appear that the auditor is required to refer to the information if it was 'obtained' by the date of the auditor's report, whether or not it was practicable to read and consider it in the available timeframe.

Location of information in the auditor's report

It is unclear from the exposure draft where in the auditor's report the reporting on other information such as the examples in A57 and A58 would be located. Some consistency would be desirable in such disclosures being treated as 'Other matter' paragraphs. ACAG acknowledges that the IAASB is reconsidering whether separate concepts of Other Matter and Emphasis of Matter paragraphs will be necessary in line with new audit reporting models (as noted in the

Invitation to Comment: Improving the Auditor's Report). However, ACAG is of the view that by drafting such requirements with reference to extant standards, greater context will be provided for any future transitions.

It would be helpful for it to be clearly stated whether or not a paragraph is to be included at all in the event no other information was (i) identified, or (ii) received before the dating of the auditor's report, as may be the case where the statutory deadline for the auditor's report to be signed is significantly before the date the audited financial statements are initially released.

Obtaining information prior to its release

It is not clear from the standard whether it is mandatory for the auditor to attempt to obtain the other information prior to its release. The guidance in A22 implies that this should be done. ACAG notes that for public sector annual reports, it can be difficult to obtain knowledge of when the information is to be released. The practicalities of accessing 'other information' just prior to the date of signing and then reading and considering such information in a restrictive timeframe will be difficult to administer.

Arrangements for dealing with inconsistencies in the other information obtained after the date of the auditor's report

The auditor's obligation to report on findings is dependent on whether the other information has been obtained before or after the date of the auditor's report.

It would appear from the exposure draft that it is the IAASB's intention that the auditor's report should not be reissued if there are inconsistencies in the other information that has been obtained after the date of the auditor's report where they do not indicate misstatement in the financial statements (last sentence of A59 and a lack of black letter requirements in paragraph 16 to this effect).

In ACAG's view, the lack of mechanism to report uncorrected inconsistencies in the other information which do not indicate misstatement in the financial statements where the other information is obtained after the auditor's report has been issued is problematic. Once the auditor's report has been issued, the ability of the auditor to obtain further information and representation from management is diminished. This will be compounded by a lack of outcome from the subsequent review activity by audit – that is, unless there is an issue with the financial statements, there is no change to the outcome (i.e. the auditor's report).

Nevertheless, ACAG recommends that the IAASB consider making consequential amendments to ISA 560 *Subsequent Events*. This is because, as ISA 560 stands, paragraph 14 could appear to capture examination of other information which could create confusion for the auditor.

Whole of Government financial statements

From a public sector perspective, ACAG questions how the revised standard will apply to larger audits such as a Whole of Government financial statements. Publicly available information associated with the release of these statements can contain information such as details of major infrastructure projects and details of how projects align with election promises. The amount of

work required to read and consider this information in light of the auditor's understanding of the entity and its environment could be substantial and will potentially have a marked impact on the cost of the audit.

Further, identification of which documents are within the scope of the standard will have complexities at a Whole of Government level. For example, are governmental media releases that may or may not relate to their financial statements within scope?

Other consequential amendments

ACAG recommends that consideration be given to amending ISA 210 – *Agreeing the Terms of Audit Engagements* including to reflect potential changes to the auditor's report.

General questions on ISA 720

In terms of (a) Preparers; (b) Developing Nations; and (c) Translations; ACAG provides no comment on these topics.

(d) Effective date – ACAG supports the IAASB's intention to allow 12-15 months between the issuance of the final standard and the effective date. ACAG also supports the option to early adopt the standard.