14 March 2013

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th floor
New York, New York 10017
USA

Via website: www.iaasb.org

Dear Sir/ Madam,

Exposure Draft— ISA 720: The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon

Thank you for providing us with the opportunity to provide comment on the Exposure Draft: ISA 720: The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon (ISA 720) issued in November 2012. We understand the International Auditing and Assurance Standards Board (IAASB) has encouraged a variety of stakeholders to comment on this Exposure Draft.

The Australian Institute of Company Directors (Company Directors) is the second largest member-based director association worldwide, with members from a wide range of corporations, publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

1) Summary

In summary the Australian Institute of Company Directors comments are as follows:

a) we believe that the changes suggested by the Exposure Draft will significantly extend the scope of the audit;

b) there will be an increase in audit work required and this will result in an increase in audit costs which would be either borne by the auditor or the audit client without significant benefit to the user;

c) there is no clarity as to what would be included within “other information”; and

d) the proposed changes to ISA720 may result in extending the audit expectation gap with users of the financial statements.

Below are Company Directors’ more detailed concerns about the proposed amendments to ISA 720.
2) Changing the scope of the Audit

Company Directors believe that the inclusion of the auditors’ consideration of “other information” will significantly extend the scope of the audit. We do not believe that there has been significant evidence of the inclusion by companies of misleading financial information in the “other information” that accompanies the financial statements. As such there is not a compelling argument for the need to extend the scope of the audit. The Explanatory Memorandum makes conflicting statements about whether the proposed amendments to ISA720 would extend the scope of the audit. We are concerned that there will be a lack of clarity as to the level of reliance a user of the financial statements and “other information” may place on these disclosures and as such the scope of the audit may be extended unintentionally.

We are also concerned that the changes proposed in ISA 720 may result in companies providing less supplementary information and restricting their additional disclosures so as to reduce the need for review and engagement with the auditors in approving such disclosures.

We need to continue to recognise that the primary role of the audit is to express an opinion on the financial statements of the company and to extend this role into other areas of corporate reporting may require skills and expertise outside of the traditional audit.

3) Potential for increase in audit costs

The proposed changes to ISA720 will increase the amount of work that is required by the auditor. The auditor would be required to determine what information is within the scope of ISA 720 and to perform a set of procedures on this information and gather audit evidence to support their review. Currently, there is no framework against which the auditor would base such a review. The auditor would also need to agree with the company as to what other corporate reports would be within the scope of ISA 720’s “other information”. All the above activities would result in increased costs to both the company and the auditor, especially for those areas that require the engagement of an expert.

We are not convinced that the perceived benefits of extending the work that the auditor is expected to do with respect to “other information” will crystallise or increase the transparency around the nature and accuracy of this information.

4) Defining what “other information” is within scope

Company Directors is concerned about how and who would determine which information would be included within the definition of “other information” for the purposes of ISA 720. Companies prepare a myriad of documents that accompany the release of the financial statements, including slide presentations to analysts and shareholders. We are not sure whether these presentations amongst other things, would be included within the scope of “other information”.

The introduction of Integrated Reporting will potentially require auditors to read significant amounts of additional disclosures to determine whether any financial information is contained therein and then whether that information is consistent with the financial statements. This could become quite onerous for the auditor to determine whether any aspect of the Integrated Report includes financial information. For example, a disclosure around an estimate of carbon emissions is based on production, which is a generator of expenses and this includes financial information that underpins the financial statements.
5) Expectation Gap

The Explanatory Memorandum states that “The IAASB believes that the proposed ISA will help narrow the expectations gap through requiring auditors to articulate in their reports their responsibilities under the proposed ISA, and the outcome of their work relative to the other information.” Company Directors do not believe that the proposed changes to the ISA 720 will narrow the expectation gap. We are concerned that the proposed changes will have the opposite effect and extend the expectation gap, as users who have not reviewed the audit report, may place undue reliance on the fact that the “other information” has been subject to an audit. Since the “other information” as defined in the ISA 720 may be documents separate to the financial statements (which include the audit report) a user may erroneously believe that the information on which they are basing their economic decisions has been subject to an audit without referring to the audit report itself.

We are also concerned that the auditor may not have the necessary skills to assess all the information included within the accompanying “other information” and as such there may be aspects of the “other information” that may not be materially correct but about which there is an assumption by the user of such information that some form of expert review as to accuracy has been performed thereon.

We also believe that the proposed changes increase the potential liability of both the auditor and the company as users may place undue reliance on information that may subsequently be determined to be materially misstated.

We hope that our comments will be of assistance to you. If you are interested in discussing any of our views please do not hesitate to contact me or Nicola Steele on +61 3 8248 6600.

Yours sincerely,

[Signature]

John H C Colvin
Chief Executive Officer &
Managing Director