



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

18 July 2014

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue
6th Floor
New York 10017
United States of America

Submission via IAASB website

Dear Professor Schilder

Submission on Exposure Draft: ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* ("the ED")

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand and are known for professional integrity, principled judgement and financial discipline, and a forward-looking approach to business. We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

Chartered Accountants Australia and New Zealand commends the International Auditing and Assurance Standards Board (IAASB) for its commitment to reassess the auditor's responsibilities relating to other information and for re-exposing the standard to ensure the objective of delivering benefits to business in the public interest is achieved.

While we are generally supportive of the changes that have been made to the proposals since the previous version of the exposure draft, we still have concerns in specific areas which we believe should be considered before the proposed standard is finalised. In particular we remain concerned in relation to the reporting proposals and the implications of requiring audit procedures after the date of the audit report.

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The appendix (attached) provides responses to the specific questions raised in the ED. If you have any questions regarding this submission, please contact Liz Stamford (Audit and Insolvency Leader) via email; lizstamford@charteredaccountantsanz.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Ward', with a stylized flourish at the end.

Rob Ward FCA
Head of Leadership and Advocacy

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Appendix: Responses to specific questions

Q1. Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor’s work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

Other than in relation to reporting and information received after the audit report date (as set out in responses to Q3 and Q4 below) we support the stated objectives. Specifically we support separating the objectives to consider whether there is a material inconsistency between the other information and the financial statements, and whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit.

We agree with scoping the requirements to information included in an entity’s annual report. The concept of an annual report is generally understood and the definition is capable of being easily applied. In particular we believe this scope is appropriate because it does not place an open-ended obligation on the auditor, with no time limit on which documents would be in scope. Some of our members felt that it would be useful to explicitly exclude earnings guidance statements from the scope.

We agree with the proposals to clarify and extend the auditors’ responsibilities to “read and consider” the other information. In particular, the focus on material inconsistencies improves the clarity of the proposals.

We are concerned, however, about retaining the concept of “omission”. In the absence of a clearly defined framework for the preparation and presentation of other information, it is management who determine what other information to include in the annual report, not the auditor. Consideration should be given to clarifying that the auditor is responsible for reading and considering the other information included by management, not for determining whether the other information is complete.

We agree with using a principles-based approach, as the nature and extent of the auditor’s work depends on the substance of the other information, and it is not practical to develop requirements for every possible situation. Providing examples of limited procedures that the auditor may choose to perform, given in paragraph A23, are useful. It would also be useful for the auditor to include guidance or requirements in relation to documentation of the procedures.

Q2. Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

All standards are reliant on professional judgment, and so there is always a risk of inconsistent application. In this standard, for example, there is a degree of subjectivity in how auditors will measure “inconsistent”. We note that ED 720 (2012) defined “material inconsistency” as including information presented in a way that omits or obscures information. We would recommend that a definition be included in the standard without reference to omission so it is clear that it is management’s responsibility for completeness of information (as discussed in response to Q1 above).

Q3. Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

We are supportive of exploring options to enhance the usefulness of auditor reports. We are also supportive of clarifying the auditor's responsibilities with respect to other information, but recommend that the responsibilities of management with respect to other information also be stated. As the other responsibilities of management are set out in the report, remaining silent on their responsibilities for the preparation and presentation of the other information may create ambiguity for users.

We believe it is highly likely that users will misinterpret the proposed statement in the auditor's report to assume that the other information has been subject to separate assurance procedures and provides an expression of an opinion on the other information. This is because of the way this section is emphasised. Other aspects of the audit process do not have separate sections in the auditor's report.

Therefore, we believe that a separate statement specifically relating to other information may confuse users and contribute to the expectation gap as it may imply separate assurance.

Q4. Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

The obligation for the auditor to read and consider other information obtained after the date of the auditor's report introduces a further complexity both for the audited entity and the user of the report.

As the objective is now linked to the annual report, assurance practitioners generally would likely delay issuing the auditor's report if information had not been received. An example given during our consultations with members is that professional scepticism would lead a practitioner to question why the client had not provided the other information as previously agreed in the engagement letter or planning.

However, in situations where information is not received prior to the auditor's report, our conceptual belief is that requiring additional procedures, over and above the ISA 560 procedures, is unnecessary. We would therefore recommend removing these sections from the final standard. We recognise however that the IAASB has considered this concern and will likely continue with requiring specific additional procedures.

Given this expected approach, we then raise a concern over the proposed reporting. It is unlikely that users would understand the significance of just omitting the '*Other Information*' section from the auditor's report if no other information has been obtained. The requirement to identify the other information that has been obtained enables users to determine what has been covered as part of the audit as a whole. The fact that no other information was obtained is a relevant fact under this reporting regime and should be explicitly stated.

We did receive feedback about the usefulness of identifying the other information in the auditor's report at all. Financial analysts who were consulted expressed a view that their interest is in matters that could materially impact the valuation of the entity. They raised a concern that including a statement on other information in every audit report would diminish the value of the exception-based reporting and their ability to focus on matters of material impact.