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James Gunn
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Via electronic submission

Dear Mr Gunn

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 ED)

CPA Australia welcomes the opportunity to comment on the ED. CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia recognises the growing prominence placed on information outside audited financial statements for decision making in capital markets. In light of this trend, it is appropriate to reconsider the auditor's role in respect to such information. We commend the International Auditing and Assurance Standards Board (IAASB) for its efforts in tackling this increasingly important yet challenging development.

It is important to recognise the full extent of what is required to achieve the stated objectives of the ED in respect to significant changes in the nature and extent of information accompanying or related to audited financial statements and the auditor's report thereon. Conveying greater confidence on an expanded set of information used for decision making in capital markets reflects a significant increase in scope of financial statement audit, and potentially a different form of assurance. The ED attempts to gain efficiency in achieving this objective, by building on financial statement audit without a full recognition of the inherent scope increase or potential for users to derive assurance from the auditor's statements on other information.

The potentially problematic areas CPA Australia recognises within the ED (as outlined in Appendix), primarily stem from this approach. Overall, CPA Australia recommends a more full and unconstrained examination of what role auditing and assurance can and should play in meeting needs that exist within capital markets with respect to other information (as defined in the ED), and a more compact definition for the scope of revisions to ISA 720 in this current iteration.

CPA Australia's detailed responses to the ED are attached. If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a long horizontal flourish extending to the right.

Alex Malley FCPA
Chief Executive

cc: A Ghandar

Appendix: Detailed response to the ED

Full assessment of auditor's role required

CPA Australia recognises the impetus for this project in the form of “significant changes in the nature and extent of information included in documents containing audited financial statements and the auditor’s report thereon (such as annual reports)”. This impetus is further expanded as noted in the ED, due to “increasing and more diverse use of documents other than the annual report” by entities in disseminating information.

CPA Australia recommends a full and unconstrained examination of what role auditors and assurance practitioners should play in meeting the needs within capital markets in respect to other information. This would include consideration of:

1. How do the auditor’s existing responsibilities in regard to other information need to be changed, given changes in how, and the type of information disseminated in capital markets?
2. Is there demand/need for an assurance conclusion to be conveyed in respect to certain types of other information?
3. What type of assurance, if any, is appropriate to be obtained, and how should this be conveyed to users?

In form, the ED primarily deals with point one above, however in the substance of the changes proposed to auditor’s responsibilities, it appears to seek to address needs that may exist in respect to points two and three also, without fully recognising the ramifications. The result is that the reporting and responsibilities envisaged within the ED could create the impression that a form of assurance or confidence is being conveyed in respect to the other information, without this being underpinned by consistency with the *Framework for Audit and Assurance Engagements*, and potentially relevant assurance standards and concepts.

CPA Australia recommends to:

1. Limit the current revision of ISA 720 to documents contained within the annual report, or in the same document as the financial statements (note other comments below).
2. Consider other information outside the annual report in a wider examination of what the role of auditing and assurance should be, and importantly, how this role should be communicated with users.

Extension of scope

The ED reflects an increase in the scope of financial statement audits, in terms of both the work effort required, and the subject matter information on which the auditor passes comment in their reporting.

There are risks involved in extending the scope of the auditor’s role in respect to other information without fully recognising that it *is a scope increase*. Users would potentially place a greater level of confidence in other information if this ED was issued and the auditor took on the role envisaged within it. If this perception is not supported by a level of assurance, and appropriate standards, there is a risk of exacerbating the expectations gap.

CPA Australia recommends further examination is required in order to set in place the underlying framework and standards required for an assurance practitioner to provide confidence to users as to whether other information ‘could reasonably be expected to influence their economic decisions’. Although not explicit, requiring the auditor to identify such instances is tantamount to an implicit conclusion in negative form.

Documents to be considered in-scope

The ED as currently drafted potentially scopes in documents that are released *after* the date of the auditor's report. This would entail a number of practical issues:

- The auditor keeping track of what documents have been released;
- The auditor keeping their audit file open despite jurisdictional requirements to close their file within a set period of issuing their opinion;
- Addressing or communicating any issues identified with users of the auditor's report.

CPA Australia recommends further analysis is required to identify how these practical issues could be addressed in implementing the standard. This also highlights why a more full examination of what the auditor's role should entail with respect to other information is important. Such an examination may indicate that the needs of stakeholders are more closely aligned with an explicit statement from an assurance practitioner in regard to certain types of other information, underpinned by assurance standards and framework.

Definition of inconsistencies

The operative paragraphs of the ED require the auditor to read and consider the other information and identify material inconsistencies. Para 9(a)(ii) of the ED defines inconsistency as including information that:

is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

This definition represents a significant expansion in the responsibilities of the auditor. Issues that may arise as a result of this are augmented by the lack of a reporting framework underlying other information in many instances, and the often subjective nature of assertions made in documents that could be scoped into other information.

CPA Australia recommends that this aspect of the definition of inconsistency is removed, and that the aspect outlined in para 9(a)(i) is sufficient.

Use of the word “accompanying”

The word “accompanying” is generally defined as to “be present or occur at the same time as something else”. While recognising this is a defined term in the standard, the use of this word in the title of the ED could potentially confuse given its usage in general language. The ED covers other information that is not released at the same time or together with the audited financial statements. CPA Australia recommends the use of a word that more closely reflects the meaning within the ED such as “related”, “connected with” or “associated”.