



The Institute of Public Accountants

Submission on Auditor's Responsibility Relating to Other  
Information



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS

*Partnership beyond numbers*

Dear Sirs

## **Proposed ISA 720 (Revised) “The Auditors Responsibility Relating to Other Information”**

### **Introduction**

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the proposed ISA 720 (Revised) “The Auditors Responsibility Relating to Other Information” (“ISA 720”). We do not support the expansion of auditor’s responsibility as proposed in ISA 720 (Revised) (“the proposed standard”).

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 25,000 members nationally and internationally, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting the profession, industry and the public interest.

### **Executive Summary**

1. We do not support the proposed standard as it inappropriately broadens the auditor’s responsibility in dealing with other information in documents containing the financial statements and the auditors report (“the annual report”). Extending the boundary of auditor’s responsibilities requires a relevant framework and guidance with respect to expectations of audit procedures and audit evidence.

Further, we do not consider it appropriate from the IAASB to be “raising the bar” independently of those who mandate the preparation of other information or who have regulatory oversight for such information.

2. There is no obligation imposed regarding management’s responsibility with respect to other information. Management should have the responsibility to ensure that they provide other information to the intended users that is presented free from error and is relevant and consistent. It should not be false or misleading.
3. The proposed standard offers opportunity for preparers to “game” its requirements by changing the timetable for the preparation of other information so that such information is not subject to the proposed standard’s requirements, that is, the auditor is not required to include the section in the auditor’s report addressing other information.
4. The proposed changes to ISA 720 will require the auditor to provide a statement in the auditor’s report whether other information is materially misstated. Critical to the assurance framework is the objective to ensure the audit conducted in accordance with auditing standards to enhance the degree of confidence for intended users of the financial statements. Providing a statement but no assurance conclusion in relation to other information will be misleading to intended users. We consider audit expectation gap issues will be accentuated.
5. If the proposed standard was to proceed, we consider that further guidance is required in relation to specific audit procedures required to meet the obligations imposed and also to identify what document is needed to evidence that those requirements have met.

We also consider that the extended obligations should be restricted to listed entities to other information in annual and interim financial reports.

Our detailed comments and responses to the questions in the Exposure Draft are set out in Appendices A and B to this submission.

If you would like to discuss our comments, please contact the IPA at [ipasubmissions@publicaccountants.org.au](mailto:ipasubmissions@publicaccountants.org.au) or our technical advisers Sonya Sinclair ([sonya@ecorac.com.au](mailto:sonya@ecorac.com.au)) or Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)), GAAP Consulting.

Yours faithfully



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## Appendix A

### Proposed ISA 720 (Revised) “The Auditors Responsibility Relating to Other Information” – detailed comments

#### Background

The International Auditing and Assurance Standards Board (IAASB) re-issued ISA 720 (revised) in March 2014 for re-exposure taking into consideration comments received on the initial exposure draft released in November 2012. The intention of the proposed changes to ISA 720 is to broaden the auditor’s responsibilities to report on material inconsistencies identified between other information and the financial statements including the auditor’s consideration of the other information obtained from the auditor’s understanding of the entity obtained during the course of the audit.

The scope of other information is defined as information attached to the financial statements and auditor’s report, usually referred to as the annual report. Other information may contain both financial and non-financial information including historical, present or business outlook information that the auditor is required to read and consider but is required under paragraph 15 of the proposed standard “to perform limited procedures to evaluate the consistency between the amounts or other items in the other information”.<sup>i</sup> There is no further guidance provided on consideration of non-financial information that is highly subjective specifically on information that may require an expert in the particular field or is information relating to the business outlook of the entity.

The auditor is required to include a separate section under the title “Other Information” in the auditor’s report if all or any of the other information is provided prior to the date of the audit report. Included in this section must be a statement to explain whether there is anything to report on an uncorrected material misstatement of other information. A material misstatement is defined as “information that is incorrectly stated or misleading that could affect the economic decisions of users.”<sup>ii</sup> There is no further guidance on how to determine an appropriate level of materiality for both financial and non-financial information that could affect the economic decisions of users.

#### Assurance framework

The proposed changes to ISA 720 will require the auditor to a statement in the auditor’s report and perform undefined review procedures based on lacking criteria or framework. Critical to the assurance framework are the auditing standards from which auditors are required to apply, as part of the audit process. The objective of the assurance framework is to ensure a quality audit is performed to ensure an accurate audit opinion is issued on the financial statements of the entity that intended users may rely upon. It is a fundamental part of any review or audit engagement that the work is conducted in accordance with auditing standards to enhance the degree of confidence of intended users of the financial statements.

Annual reports (apart from the financial statements) vary significantly between entities based on what Those Charged With Governance (“TCWG”) believe to be relevant and significant to their key stakeholders. The financial reporting framework provides TCWG criteria from which to evaluate the underlying data and develop financial statements of the entity. TCWG are given the opportunity to express and exercise their judgement on what to report for the intended users. To express an opinion regarding material inconsistencies between other information and the financial statements requires a framework from which the auditor is able to evaluate the criteria against the other information.

To what extent does the auditor obtain sufficient appropriate audit evidence relating to other information and how does the auditor determine a material inconsistency on information that is subjective. Critical to the risk based audit approach is identifying the risk of material misstatement on the financial statements and determining what is material. Information included in the annual report includes both qualitative and non-qualitative information including past, present and business outlook information, and is usually not available until after the audit report on the financial statements is

issued. Significant delays in providing auditors with other information and the subject nature of other information will make it difficult for the auditor to apply consistent and reliable procedures.

## Auditor's responsibilities

Extending the auditor's responsibilities beyond the audit of the financial statements to include other information may be misleading to the intended users. ISA 720 (revised) has the intention of increasing the auditors responsibility significantly, requiring the auditor to consider inconsistencies between other information and the auditor's knowledge of the entity that could reasonably be expected to influence the economic decisions of the intended users. Whilst an auditor is expected to understand the business and its environment including its internal controls as part of the audit process, the proposed standard requires the auditor to exercise their knowledge about the entity against the reported other information, which is not based on a consistent framework. The auditors' understanding of the entity is for the purpose of assessing and identifying the risk of material misstatement on the financial statements. Financial statements are developed from applying the conceptual framework for financial reporting, providing information that is useful to intended users.

The proposed standard defines other information as materially misstated if information is incorrectly stated and could affect the economic decisions of users. An appropriate level of materiality for both quantitative and non-quantitative information may be difficult for the auditor to determine, and further, whether other information is free of material inconsistency. Other information varies significantly between various entities (making each annual report unique to the entity and for the purpose of the intended users); however, this also makes it difficult for auditors to apply uniformity in their audit procedures. Applying a consistent approach to determining materiality on other information is difficult to achieve as there is no set criteria or framework from which other information is developed.

The auditor's responsibilities with respect to other information should remain under the current ISA 720 and not create the false and misleading idea that any assurance is being provided on other information. Users of the other information will find it difficult to understand what the auditor's responsibilities are and may place further reliance on other information than what was initially intended by the proposed standard.

## Management's responsibilities

ISA 720 (revised) does not provide clarification around management's responsibility with respect to other information. This is considered to be a fundamental shortcoming of the proposed standard.

Whilst it is widely known and accepted that management is responsible for the preparation and fair presentation of other information, intended users of the annual report may assume that the auditor has broader responsibilities other than providing an audit opinion on the financial statements. The IAASB's view that "including a description of management responsibilities would mean that the section addressing the other information would be disproportionately long in comparison to other sections addressing the audit of the financial statements"<sup>iii</sup> does not support overall transparency.

The financial reporting framework states that management has the responsibility for the preparation and fair presentation of the financial statements. As there is no existing framework with respect to other information, it is management's decision and judgement as to what information is significant to be included in the annual report for its intended users that could impact on their economic decisions and will vary between entities and jurisdictions. Further, the timing of when other information may become available is a matter for both management and any relevant law or regulation. The auditor is limited in its capacity to receive timely other information and yet there is an expectation to report material inconsistencies.

Under the proposed standard, ISA 720 (revised), management will have the responsibility of providing the other information within the required audit timeframe, subject to relevant laws and regulations; ensure that they are providing other information that is presented free from error and is relevant and consistent; and are responsible for ensuring the auditor is provided with sufficient evidence to support

the underlying information. ISA 720 (revised) should not assume that intended users understand this, rather, this needs to be conveyed clearly, possibly within the auditor's report.

## Extending the boundary of auditor's responsibilities

The expectation gap that exists will be further widened by this proposed standard. The existing gap between what intended users of the financial statements reasonably expect auditors to achieve and what auditors can reasonably be expected to achieve can only be strengthened by regulators placing more pressure on entities to improve their governance structures, ensuring they have appropriate internal controls to reduce the risk of fraud and providing public education about auditor's responsibilities.

It should be made clear to intended users of the other information what work has been performed on other information or what work has not been performed. Other information not provided prior to the audit report being issued but presented in the annual report will have the unintended consequence of creating the perception that the auditor has performed certain procedures on other information. Extending the boundary of auditor's responsibilities requires a relevant framework and guidance with respect to expectation of audit procedures and audit evidence.

It is our view that this proposed standard is a separate engagement and requires more involvement by the respective regulators to enhance the pressure on entities to report on significant and relevant matters and further, to be held accountable for the information they report on in the annual report. Any requirement by the auditor to provide assurance on information other than in the financial statements is a separate engagement that requires a framework from which auditors and management can report on and adhere to.

## Audit report and expressing assurance or review opinions

The auditor is required to express an opinion on whether the financial statements are true and fair (presents fairly) in conformity with accounting standards. Intended users of the financial statements place reliance on the auditor's report and should convey information useful for decision-making which may include significant uncertainties such as an entities inability to continue as a going concern. Reporting on material inconsistencies that may or may not exist increases the misunderstanding by intended users of the financial statements and audit report thereon relating to what procedures the auditor has or has not conducted. Further, it is common practice that other information normally included in the annual report may not be available prior to the date of the auditor's report.

Any changes to the audit report impact on the intended user's behaviour of reliance on that report and therefore the auditors risks associated with the audit report. Any additional disclosures to be included in the auditor's report should be subject to a level of scrutiny and research on how this may affect the auditor's risk profile and whether the benefits to the intended users outweigh the costs associated with such change.

The proposed standard requires the auditor to address in a separate section in the audit report other information obtained prior to the date of the auditor's report and state that the auditor does not express any assurance conclusion thereon. The auditor is required to describe the material misstatement if there is an identified uncorrected material misstatement in other information. The underlying principle of the auditor's report is to express an audit opinion on the financial statements. It will be confusing and misleading for the intended users describing in the auditor's report other information provided prior to the date of the auditor's report but not subject to the same level of scrutiny as to the information reported in the financial statements.

Without addressing what management's responsibilities are with respect to other information in the audit report, this will convey an unclear message to the intended users of the auditor's report. Whilst the intention under the proposed standard is for the auditor to identify material inconsistencies, there may be the unintended consequences of less information provided to auditors prior to the audit report being issued.

## Appendix B

### Proposed ISA 720 (Revised) “The Auditors Responsibility Relating to Other Information” – comments on specific questions

**We do not support the proposed ISA 720 (Revised), however, should the IAASB decide to issue the proposed standard, we provide our comments on specific questions as outlined below.**

1. *Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor’s work effect (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.*

The work effort required by the auditor to read and consider information provided prior to the date of the audit report is adequately described. However, we are concerned that intended users will place more reliance on the other information accompanying the audited financial statements. The proposed ISA describes the auditor’s responsibilities to consider whether any material inconsistencies exist and report on any uncorrected material consistencies, however no assurance is to be expressed on other information. In an attempt to convey this message clearly to the intended users may find this to be misleading and confusing.

Paragraph A47 ISA 720 (revised) the auditor is not required to report on other information in the auditor’s report if the information is not obtained prior to the date of the auditor’s report. There will be an expectation by intended users that a change in the auditing standards to report on material inconsistencies with respect to other information will be undertaken as part of every audit, regardless of whether that information was provided prior to the date of the audit report or not.

We are of the opinion, that some preparers will “game” the proposed exclusion by changing the timing of when other information is provided to the auditor until after the audit reporting was signed.

If the proposals in ISA 720 are to proceed, we are of the view that auditor should report on information not received prior to the date of the audit report.

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

We do not believe that the changes in the proposed standard can be consistently applied to both non-financial and financial information presented in annual reports as information varies significantly between entities, industries and jurisdictions and there is a lack of an appropriate framework. As mentioned in the previous section, the proposed changes to ISA 720 will require the auditor to express a conclusion and perform undefined review procedures based on lacking criteria or framework. It is a fundamental part of any review or audit engagement that the work is conducted in accordance with auditing standards to enhance the degree of confidence of intended users of the financial statements.

Annual reports (apart from the financial statements) vary significantly between entities based on what Those Charged With Governance (“TCWG”) believe to be relevant and significant to their key stakeholders. The financial reporting framework provides the criteria from which to

evaluate the underlying data and develop financial statements of the entity. To express an opinion regarding material inconsistencies between other information and the financial statements requires a framework from which the auditor is able to evaluate the criteria against the other information.

Some specific areas of the proposed standard that we believe will be difficult for the auditor to interpret and apply consistency includes the level of audit procedures required to be performed when other information is obtained after the date of the auditor's report; the auditor's responsibility relating to subsequent events; and the auditor's application of determining material inconsistency with reference to what could reasonably be expected to influence the economic decisions of the users.

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

It is unlikely that the proposed standard ISA 720 (revised) is able to provide effective communication to intended users where the audit report states that the auditor is required to consider whether other information is materially misstated, however, the auditor is not required to express a conclusion thereon. Users may unintentionally place more reliance on other information.

Communicating to users about the auditor's work is conveyed in the auditor's report. It provides the opportunity for the auditor to provide and explain that the financial statements give a true and fair view and that they comply with relevant legislation. If there is some reason that the financial statements do not give a true or fair view or that they do not comply with relevant legislation, they are required to report on that fact.

We believe intended users will not understand the terms used in the auditor's report proposed under the new standard. The terms "consider" and "material inconsistency" may not take on its intended meaning and may widen the expectation gap.

4. *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.*

We consider this approach to be costly and of no benefit to the intended users. It is unclear as to whether the auditor is required to report to those charged with governance any identified material inconsistencies and whether the audit is assumed not to be finalised on the date of the auditor's report.



## References

<sup>1</sup> Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditors Responsibilities Relating to Other Information* – Proposed Consequential and Confirming Amendments to Other ISAs. Para 40, page 18.

<sup>1</sup> Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditors Responsibilities Relating to Other Information* – Proposed Consequential and Confirming Amendments to Other ISAs. Para 40, page 17.

<sup>1</sup> Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditors Responsibilities Relating to Other Information* – Proposed Consequential and Confirming Amendments to Other ISAs. Para 40, page 12.

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