

Request for Specific Comments

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?*

The beginning of the Explanatory Memorandum shows how the reporting environment has changed with the advent of electronic communications. ISA 720 needs to discuss this trend, and weigh the various sources of information as a preamble to setting these requirements. The public are using these other sources of information and therefore it is appropriate for the auditor to consider them. We therefore agree with the extension of the standard to embrace information accompanying the financial report.

The essence of the auditor's role is to provide assurance that the information upon which an auditor's report has been issued is fairly presented and accords with accounting standards. For there to be public confidence that this role has been effectively discharged it is important that the auditor is aware of and has seen all publicly available information that he or she could be sensibly expected to have seen and be satisfied that there is no discernable inconsistency between that contemporaneous other information and the audited information without incurring the costs of a full audit of that other information.

The existing standard provides a broad framework within which an auditor should consider other information and provides broad guidance as to the nature of that information. It does not provide for public reporting on that consideration of the other information. Whilst we recognise that any extension of the information upon which an auditor is required to report can cause an increase in time and cost, our experience, based on work done on major corporations which we have audited, is that this extension beyond the implicit assurance provided under the predecessor standard will not cause a significant increase in cost and will provide users of financial information with a clearer statement of consistency between the audited information and the other information. These proposals are an important recognition of the ability of auditors to provide assurance¹ or comfort about the information being presented to users of financial information presented through and with the financial report. An explicit report would also emphasise to the client the importance of presenting a consistent message.

Such a review, to the extent that the other information is available at the time of the audit, can also provide the auditor with useful contextual information that can assist in evaluating other sources of audit evidence, such as the findings from analytical review.

¹ The term "assurance" has a specific meaning in auditing literature which we recognise. In this response to these questions we use the term in its colloquial sense of giving comfort in some form or another. In our view whether auditors like it or not readers will bring to any audit commentary their own expectations and whilst the work done on other documents will be less than an audit or review auditors should not expect readers to have that level of understanding and therefore need to be diligent in their use of the lesser scope of work defined in the standard.

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?*

For the reasons given above we believe that the broadening of scope is appropriate.

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?*

We do not believe that the concept of initial release is clear and understandable for two reasons:

- The proposed standard excludes from its ambit both preliminary announcements and securities offering documents (paragraph 3) and non-regulatory announcements such as analysts' briefings issued by the company though it does appear to include press releases issued with financial information. These exceptions appear to be at odds with the objectives implied in paragraph 2 of the proposed standard. Preliminary announcements (in Australia, the 4E provided to the stock exchange), and documents for analysts' briefings are issued very close to the time at which initial release as defined occurs and are often considered by boards and audit committees concurrently with the financial statements. Both preliminary announcements and analysts' briefings are significant sources of information for investors, arguably more so than the annual report, and are capable of including matters that "undermine the credibility of the audited financial statements and the auditors report thereon". Likewise securities offering documents are capable of including matters that "undermine the credibility of the audited financial statements and the auditors report thereon" and when issued proximate to the time of issue of the financial statements would, prima facie, form part of the pool of documents envisaged by paragraph 2. These exceptions render the concept of initial release in the context of the propositions contained in paragraph 2, difficult to understand.
- The time of issue of the "other information" is not restricted to the period before the date of the auditor's report. Thus this "other" information could include written information not delivered to shareholders until the AGM. This means that the concept of initial release has moved beyond the ordinary meaning of the term "initial".

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?*

We are not sure we understand this question. For the reasons given above, where a securities offering document is issued within the time period considered as the period of initial release, if that document contains matters that pertain to the financial statements then that document and that information should form part of the "other information" to be

considered by the auditor under this proposed ISA. To the extent that the auditor is also issuing a report on the financial information within that document then the auditor will otherwise have to consider the information in that document relative to that financial information. We do not see that this necessarily causes duplication of audit effort. The task can be done once and applied to different purposes.

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

(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?

(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?

We consider, subject to our comments on the term “initial release” that the requirements of the proposed ISA are capable of being clearly understood by auditors.

We believe that application of this proposed ISA by auditors should result in providing users of the bundle of initial release material that includes the annual report with better comfort about that information, in particular that it has been considered by the auditor. However, in the light of all available relevant other information issued by the company, we do not know whether a general reader will understand the nature and scope of work the auditor has undertaken in regard to the other information.

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?

These terms are appropriate.

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?

We are not sure that this question is capable of answer by parties steeped in a knowledge of audit. The auditing profession has spent much time trying to establish forms of words that explain what it does and yet the “audit expectation gap” remains stubbornly present.

However this is not a reason not to undertake the work and provide the reports proposed in this ISA. Because of the unusual nature of these proposals, we recommend a post implementation review be conducted two years after the proposed standard becomes operative.

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?

(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?

(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?

(a) We endorse the principles based approach.

(b) We believe that the matters contained in paragraph A37 are appropriate.

(c) We have commented on the potential for the proposed ISA 720 to exacerbate the expectation gap by implying that the auditor has given some comfort on the other information above. The work proposed will not extend audit effort significantly² beyond that which we believe necessary for the auditor to express an opinion on the financial statements even when extended to include the documents that in our view should form part of the "other information" (see covering letter and answer to question 3 above). In many if not all cases auditors are already considering information in preliminary announcements and in securities offering documents and we believe to extend the scope to include analysts briefings prepared by the company is not a significant extension. Otherwise the proposed work steps are no more than those that an auditor should sensibly be undertaking under the existing ISA.

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

We found the examples of qualitative and quantitative information 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?

The proposed requirements are not clear as drafted. Paragraphs A28 onwards describe how these proposals interact with ISA 315, but in our view, reference should also be made in paragraph 11 to what the auditor should do when the review of the other information causes the auditor to reconsider his or her understanding of the entity and its environment.

² In making this comment we are considering the incremental cost as a proportion of total audit fees incurred by the company. In the case of very small companies it maybe that this proportion becomes more burdensome as total fees are lower

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?

(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?

As we commented at 7 above:

We are not sure that this question is capable of answer by parties steeped in a knowledge of audit. The auditing profession has spent much time trying to establish forms of words that explain what it does and yet the “audit expectation gap “ remains stubbornly present.

However this is not a reason not to undertake the work and provide the reports proposed in this ISA.

As we noted in our response to the “Improving the Auditor’s Report” project, our preference is for a short audit report with additional narrative for exceptions, rather than a long discursive document. In our view exception reporting is easier for the general reader to understand.

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?

We see this ISA as part of an evolutionary step developing in conjunction with the “Improving the Auditor’s Report” project.