

18 July 2014

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, Proposed Consequential and Conforming Amendments to Other ISAs

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, Proposed Consequential and Conforming Amendments to Other ISAs* (ISA 720) issued in April 2014. 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 is one of the two largest member-based director associations worldwide, with individual 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.

The Australian Institute of Company Directors notes that the Exposure Draft does not explain in significant detail the reasons for the need to revise the current ISA 720. We question whether there have been significant instances of “other information” being misleading when compared to the financial statements. We encourage the IAASB to clearly articulate the need for revising this auditing standard.

In our previous submission¹ to the IAASB on the proposed amendments to ED 720 (2012), the Australian Institute of Company Directors raised the following concerns:

- a) we believe that the changes suggested by ED 720 (2012) 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 ED 720 (2012) may result in extending the audit expectation gap with users of the financial statements.

¹ <http://www.companydirectors.com.au/Director-Resource-Centre/Policy-on-director-issues/Policy-Submissions/2013/Submission-to-International-Auditing-and-Assurance-Standards-Board-on-ISA720>

Below are the Australian Institute of Company Directors responses to the questions set out in the Exposure Draft.

Responses to questions set out in the Exposure Draft

Question 1

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.

The Australian Institute of Company Directors is of the view that the amendment contained in ISA 720, with respect to limiting "other information" as defined in paragraph 12(c) of the Exposure Draft to material contained within the annual report is a significant improvement on ED 720 (2012), which had a much broader definition of "other information" and would have been significantly more difficult to implement. However, we remain concerned that the definition of the "annual report", which is set out in paragraph 12 (a) of ISA 720, may be open to interpretation and result in divergent practices as to what is included in the "annual report" for the purposes of ISA 720.

The Australian Institute of Company Directors is concerned that the definition of "material inconsistency" in paragraph 12(b) is linked to the definition of materiality in ISA 320, *Materiality in Planning and Performing an Audit*, and sets the threshold for materiality for the "other information" at the same level as a material misstatement within the financial statements. We are of the view that this is inappropriate as the financial statements are subject to a full audit, whilst the "other information" is only required to be "read" and "considered" by the auditor. We recommend that the materiality threshold for "other information" be lowered.

Question 2

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

The Australian Institute of Company Directors is of the view that given the "principles-based" nature of auditing standards and the reliance on an individual auditor's professional judgment in applying the standard, that by their nature these standards will always be subject to varying interpretations and applications. We are of the view that the following items within ISA 720 are most likely to be misinterpreted and misapplied:

- what is included within the definition of "annual report" for the purposes of "other information";
- the nature and extent of consideration by the auditor of the "other information";
- the timing of the auditor's consideration of the "other information", given the requirement in paragraph 13(b) that the auditor considers the final version of the "other information"; and
- the users' understanding of the disclosures within the Auditor's Report as to the nature and extent of consideration by the auditor of the "other information" and the level of assurance implied.

The Australian Institute of Company Directors encourages the IAASB to reconsider these items and revisit how they are addressed in ISA 720.

Question 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.

No, the Australian Institute of Company Directors is of the view that the nature and extent of the proposed auditor reporting in ISA 720 will not narrow the current audit expectation gap. ISA 720 places significant reliance on the user having referred to the Auditor's Report and understanding the nature and extent of work performed by the auditor on the "other information" and assumes that the user will deal with the "other information" appropriately in their decision making. An unintended consequence of this reliance may be that the potential exposure of the auditor to liability is increased.

Further, ISA 720 relies on the auditor communicating via the Auditor's Report (which is a statement of assurance) that the "other information" is not subject to the same assurance criteria as applied to the financial statements. This will only be clear to users if they have actually referred to and understood the meaning of the auditor's disclosures about the "other information" in the Auditor's Report. It is highly likely that users may misinterpret or fail to even read the Auditor's Report including the statement about "other information" and thus inappropriately deal with the "other information" in their decision making.

Finally, paragraph 21 of ISA 720 only requires the auditor to include a section in the Auditor's Report on the "other information", if the final information was received prior to the date of the Auditor's Report. Given that, in practice "other information" is often finalised after the date of the Auditor's Report, the user may be unaware as to what information has been subject to review and consideration by the auditor. ISA 720 requires in those instances where the "other information" is only available after the date of the Auditor's Report that the auditor still "read and consider" the "other information" but does not require the inclusion of a section within the Auditor's Report detailing such "other information". This may result in users not fully understanding or appreciating what information has been subject to the review by the auditor and may result in users placing undue reliance on information that was not subjected to the auditor's consideration.

The Australian Institute of Company Directors encourages the IAASB to reconsider its reporting requirements to appropriately deal with the inconsistencies and potential unintended consequences raised above.

Question 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.

The Australian Institute of Company Directors is concerned that users will fail to understand the significance of the omission of the "other information" in the Auditor's Report in those circumstances where the "other information" has not been finalised prior to the date of the Auditor's Report.

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,



Rob Elliott
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General Counsel