



Grant Thornton

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Dear Merran

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

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Auditing and Assurance Standards Board (AUASB) with its comments on 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. We note that the AUASB has yet to invite constituents to comment on this ED, but given that once the ED is finalized as an International Standard on Auditing, Australia has no choice but to comply, therefore it is critical that the AUASB seeks Australian comment.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the International Auditing and Assurance Standards Board (IAASB) by its deadline date of 14 March 2013, and discussions with key constituents. As such this Grant Thornton submission represents the Australian firm's preliminary thoughts on this ED.

Grant Thornton Australia appreciates the opportunity to comment on the proposed changes to the auditor's responsibilities relating to other information contained or accompanying the audited financial statements and the auditor's report.

Overall conclusion/recommendations

Within the Australia regulatory framework there are two types of reporting frameworks;

- general purpose financial reports (a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs); and

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- special purpose financial reports (those where users of the financials have access to the relevant information to inform their decisions).

We would therefore recommend that the proposed amendments to the additional information in audit reports are considered in light of all reporting entities that are preparing general purpose financial reports.

It would appear that this exposure draft does not tie in with the revised auditors' report, as it expands the expectation gap currently in existence, not decreases as was the expectation of the revised auditors report. We understand this revised standard is expected to replace the other information section in the revised audit report.

We agree with the increased scope up to the date of signing, however are concerned that the increased expectation post signing may increase our obligations than those detailed in ISA 560.

Our concerns with the revised standard surrounds the practicalities of implementation, the additional risk attached to the audit and the additional cost to the audit. We believe, overall, this standard in its current format would not achieve the desired result of the IAASB.

We have addressed each of the individual requirements of the exposure draft in Appendix A.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

Appendix A

- 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?**

We agree with the concept of increasing the scope of the auditor’s responsibilities in respect of other information as it is in the public interest. We agree that this would be within the public interest. The IAASB may wish to more tightly define the definition of other information.

The practicalities of this accessibility of the “other information” prior to the date of signing and those submitted at the time of the financial report and auditor’s report will be difficult to administer.

- 2 Do respondents agree the broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor’s report thereon is appropriate?**

In concept, yes, we agree with the increased scope however, it will have significant cost implications and relies upon the client working effectively with their auditors.

- 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?**

The concept of “Initial release” would clearly include any information released at the same time as the audited financial statements, such as chairman’s statement and any press releases issued at that time.

Under ISA 560, the date of issuance is normally the date the financial report is filed with the regulatory body, which cannot be earlier than the date of the audit report.

Therefore you may have a situation where the initial release has occurred but the report has not been issued to the regulatory body and hence a disparity could occur.

- 4 Do respondents agree the limited circumstances in which 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 the auditor may otherwise be required to perform pursuant to national requirements?

The standard is currently proposing information would be within the scope of this where it is released to the market for the first time. Given a separate assurance opinion (ASRE 3450) would be provided on the initial public offering documents, we feel it would be more appropriate to scope this area out of the ISA. We also are concerned that this would elevate the risk attached to the annual report included within this and independence considerations would also need to be considered if the extent of ISA 720 scope included the other information surrounding an IPO document.

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 entities 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?**

The auditors would currently be using their knowledge of the client gained through the course of the audit when reviewing this information.

- 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?**

Yes, once the “other information” has been identified, the auditor should read this in context with the audit of the business and the financial statements.

6 Do respondents agree that the definition of terms of “inconsistency” including the concept of omissions and “a material inconsistency in the other information” are appropriate?

The revised definition extends the current definition to also highlight that an omission on information may also lead to an inconsistency to the audited financial statements.

When reviewing financial statements, auditors will naturally look for both omissions and material inconsistency to ensure consistency of information. However this is potentially risky as the benefit of hindsight can be applied. It is highly judgemental/ subjective as to what information should be presented as there is no prescribed format – so in many instances the level of disclosure becomes discretionary and you will then have the best practice debate over omissions. Without a defined framework this becomes difficult to assess, and therefore the IIRC and the IASB need to have in place a suitable framework for integrated / annual reporting?

- 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 auditors understanding of the entity and its environment acquired during the course of the audit?**

By requiring the statement in the auditor's report of the other information reviewed and the auditors' assessment if any of any inconsistencies, this would enhance the readers understanding.

We understand the IAASB is not expecting all information to be reconcilable, however for any non-financial information the auditor would need to ensure this is consistent with their understanding of the business through the course of the audit.

The IAASB is therefore expecting these judgements in terms of the other information to be reviewed for consistency to fall under ISA 230, requiring auditors to document their judgements in the audit file to ensure a reasonable auditor would come to the same conclusions.

- 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 auditors is expected to undertake when reading and considering the other information is appropriate?**

If the IAASB issued guidance on the principal based approach, this would be 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?**

The four categories detailed in A37 appear reasonable.

The other information category is expected to be based on risk, and auditors use their judgement to conclude.

- 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?**

Overall, the "other information" would be the most difficult to obtain and review as part of this standard. There are several practical elements that the IAASB appears to have not considered. For example, during many AGMs management usually prepare a presentation to accompany the financial statements, which auditors may previously have not been privy to prior to release. Under the revised ISA the auditors would be

expected to review these packs and comment if there are any inconsistencies with the knowledge obtained through the course of the audit and the financial statements.

There are also the significant cost implications to consider. This is a very subjective area, the partners would need to be heavily involved. Is the expectation that auditors would be passing this cost onto the clients? This may be difficult in the current economic situation.

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

The items listed in the qualitative and quantitative are quite useful. It would be helpful to also describe items such as presentations to shareholders at the AGM, in addition to the quite descriptive list attached.

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?

Yes, the standard is quite clear on this aspect.

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 the 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?

No, as "the entity and its environment" would be considered audit terminology, may be lost of the end user. This statement does also not give the user any additional evidence of how the auditors have come to those conclusions.

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?

We understand the scope of the ISA does not impose an obligation on auditors to express an opinion or a review conclusion on the other information.

However, this may lead to an "if not why not" response from the market. Where the auditors' state information is available however we have not reviewed or express an opinion on its consistency or whether it is materially consistent, that may lead to more explanations being required from investors.

The IAASB should also include some example audit report wording once this has been finalised.

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?

Yes, a limited assurance on the other information would be appropriate. Limited assurance would ensure that the auditors are responding on omissions and also information that is materially inconsistent with our review of the financial statements and the knowledge of the business.