

Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.



Improving transparency of the auditor's work performed on 'Other Information'

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April 2018

The views expressed in this article are those of the principal author and those views do not necessarily coincide with the views of the Auditing and Assurance Standards Board.

Background

To facilitate better communication to financial report users about the audit that was performed, significantly enhanced new auditor reporting standards were issued by the International Auditing and Assurance Standards Board and adopted in Australia and New Zealand, effective from December 2016.

One of the key changes to the Auditor's Report was the introduction of the 'Other Information' section required to be included in the Auditor's Report by ISA 720 *The Auditor's Responsibility Relating to Other Information* (ASA 720 in Australia and ISA(NZ) 720 in New Zealand). This new section aims to provide clarity and transparency to report to users by providing details of the auditor's consideration of the 'other information' included in an entity's Annual Report. Entities are increasingly communicating more information to users in the Annual Report and now the Auditor's Report details their responsibility regarding that additional information.

While auditors have always had a responsibility to read and consider information accompanying the audited Financial Report, the Auditor's Report was not previously required to include any details on their consideration of 'other information' contained in the Annual Report.

As part of its strategic objective to develop, issue and maintain high-quality Australian auditing standards and guidance, the Auditing and Assurance Standards Board (AUASB) has been monitoring and supporting implementation of the new auditor reporting standards through outreach to hear feedback and understand the experience of key stakeholders.

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In my role as AUASB Senior Project Manager, I have received feedback on issues faced by practitioners when applying ISA 720, and have observed some variation in reporting by auditors.

What is 'other information'?

'Other information' is considered financial or non-financial information (other than the Financial Report and the Auditor's Report) that is included in an entity's Annual Report (ISA 720, paragraph 12(c)).

Most entities issue an Annual Report which includes 'other information' that is not part of the audited financial report.

For some entities the content of their Annual Report is based on the requirements of law or regulation. For example, in Australia, the Operating and Financial Review is a required report for listed entities, and a Directors Report is a required report for entities reporting under the *Corporations Act 2001*. Entities may also include additional voluntary reporting, eg sustainability reports, overview of strategy.

Is the Remuneration Report 'other information'?

The Remuneration Report prepared by listed entities under the *Corporations Act 2001*, is included in the Director's Report and is 'other information'. While as discussed below, the auditor does not provide assurance over 'other information', this does not include the Remuneration Report as the auditor is required to express an opinion under the *Corporations Act 2001*.

How do you determine what constitutes the Annual Report?

The Annual Report contains or accompanies the Financial Report. Often it is one report labelled 'Annual Report' that includes information required by law or regulation. This however, isn't always the case.

Practical issue

Q How do auditors determine which documents constitute the Annual Report, particularly when the individual components of the report are not prepared and available at the same time, includes additional voluntary information, and are not labelled 'Annual Report'?

- A If it is unclear whether a report forms part of the Annual Report as it is not legally required content etc., consider:
- its objective and for whom is it intended
 - if it includes information which is also included in the Financial Report
 - the timing i.e. if it released with other documents which form part of the Annual Report.

What is the auditor's responsibility with regard to 'other information' and what do they have to do?

The auditor does not provide any assurance, reasonable or limited, over the 'other information'. The auditor's responsibility is to read the 'other information' and consider if it is materially consistent with the Financial Report and their understanding gathered during the audit.

This responsibility applies regardless of whether the 'other information' is obtained before or after the date of the Auditor's Report.

As a basis for this, the auditor is required to compare selected amounts or items in the Annual Report to the Financial Report. This is a new requirement as part of the enhanced auditor reporting (ISA 720 paragraph 14).

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Practical issue

A On what basis should the auditor select amounts or items to compare to the Financial Report to satisfy their responsibility with regard to 'other information'?

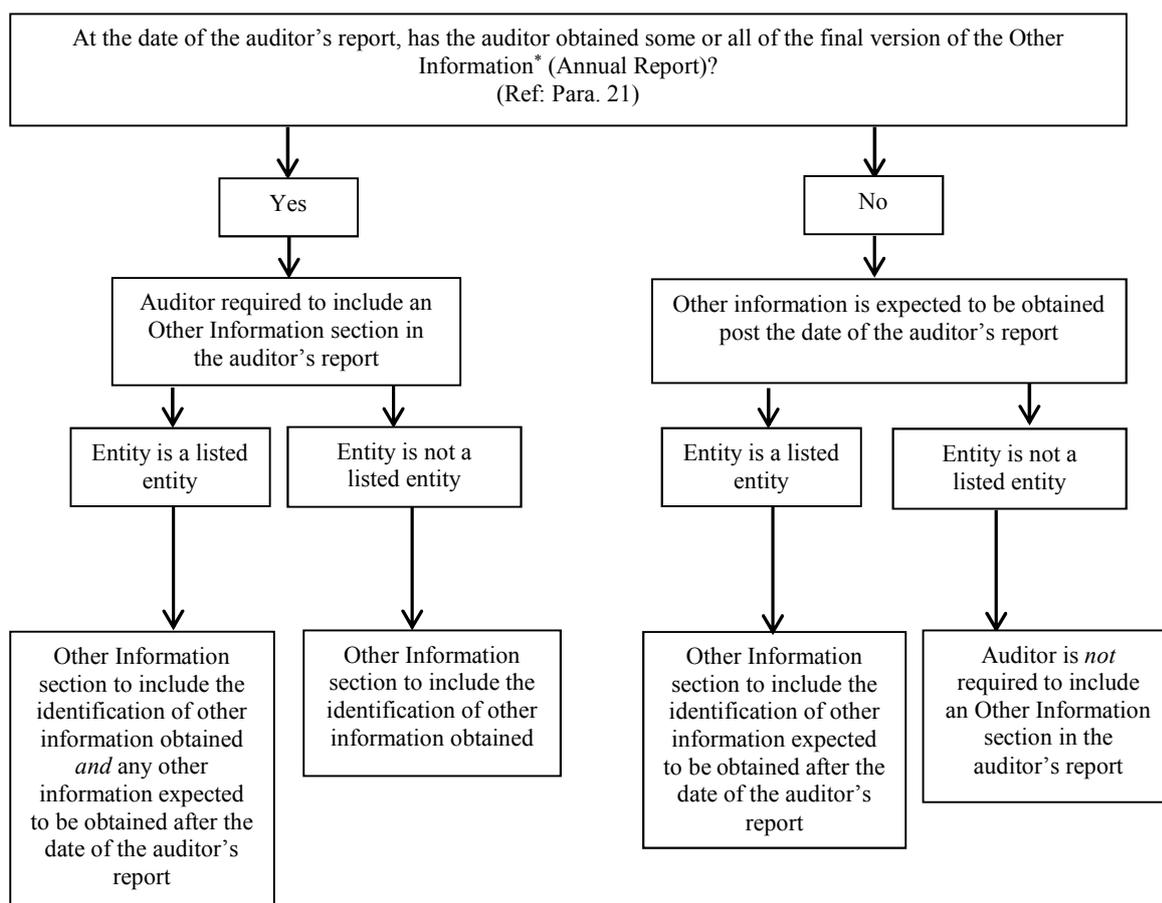
Q Importantly, it is not expected that all amounts or items in the 'other Information' also disclosed in the financial report are checked. Additionally, as no assurance is provided audit techniques (such as sampling) are not required to comply with the Auditing Standards.

The nature and extent of the amounts or items selected is a matter of professional judgement, considering relevant factors such as:

- a) the relative size of an amount
- b) the sensitivity of the item
- c) items/matters that may be important to users.

When is an 'Other Information' section required, and what is included in the Auditor's Report?

ASA 720 and ISA(NZ) 720 both include a decision tree that summarises when an 'Other Information' section is required (Fig 1).



* "Final version" of the Other Information (Annual Report) is that approved by those charged with governance (Ref: Para. 13(b), A15).

Figure 1. Decision tree which illustrates when an 'Other Information' section should be included in the auditors' report.

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In summary:

- Auditor's reports of listed entities (FMC reporting entities in New Zealand) always include an 'Other Information' section.
- Auditor's reports of non-listed entities are only required to include an 'Other Information' section if, at the date of the Auditor's Report, some 'other information' has been received. It is important however, to note that the Director's Report is 'other information' and is ordinarily received before the Auditor's Report date. Therefore it is expected that an 'Other Information' section would be included in the Auditor's Reports for non-listed entities conducted under the Corporations Act 2001.
- For audits not conducted under the *Corporations Act 2001* an 'Other Information' section is only required if 'other information' has been received at the date of the Auditor's Report.

What about special purpose Financial Reports?

ISA 720 applies to documents accompanying a Special Purpose Financial Report if its purpose is to provide owners with information on matters presented in the report.

Identifying 'other information' in the Auditor's Report

To be transparent and to provide clarity to users the 'Other Information' section includes:

- identification of the 'other information' received prior to the date of the Auditor's Report
- identification of 'other information' expected to be received after the date of the auditor' report (listed entities only in Australia, and FMC Reporting Entities in New Zealand).

The required content is different for listed and non-listed entities.

ISA 720 includes requirements to ensure there is communication between the auditor and management regarding the content of the Annual Report, the timing of its issuance, and that the auditor will receive a final version to enable them to fulfil their responsibilities. Ideally the complete final Annual Report is provided to the auditor with sufficient time to enable them to fulfil their responsibilities before the audit report is signed. This however, is not always possible.

I have noticed variation in reporting and have heard a number of practical issues in relation to identifying the 'other information' in the Auditor's Report. The objective of the 'Other Information' section is to clarify to users what the auditor has read and considered before the date of the audit report date, and what they expect to receive in the future. In some cases further detail (such as report names) will be necessary in order to identify the 'other information'.

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Practical issues

Q Is it adequate to simply refer to 'Annual Report' or should I list what makes up the Annual Report?

A How you identify 'other information' in the auditor's report to provide clarity to users is dependent on how the entity prepares and identifies the documents which form their Annual Report. For example:

- if the entity provides the full Annual Report to the auditor before the audit report date and under one report labelled 'Annual Report', then identifying this as the Annual Report in the auditor's report is sufficient
- if the entity provides parts of the Annual Report before the date of the auditor's report, and remaining parts after, then more detail is recommended (eg the names of the separate documents which form part of the Annual Report).

A best practice example of how to describe this in the Audit Report:

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Directors' Report and Remuneration Report. The remaining Other Information, which includes the Chair's Review, Chief Executive Officer's Review ... (list reports expected to be received) is expected to be made available to us after the date of the Auditor's Report.

Q What if the client doesn't know what documents will form part of their final Annual Report?

A To assist in meeting its objectives, ISA 720 has a requirement for the auditor to discuss with management which documents will form part of the Annual Report, as well as the timing of the issuance of these documents. In practice however, management may still be making these decisions. In this scenario the auditor may decide to identify the documents they are aware of.

Q How do I know that the 'other information' is final as the Annual Report won't be released until later?

A ISA 720 requires the auditor to make appropriate arrangements with management to obtain a final version of the Annual Report before it is issued, and if possible before the auditor signs their report. A 'final version' is the version approved by those charged with governance. If the 'other information' is yet to be approved by those charged with governance it may change, and therefore the auditor does not report it as being received before audit report date

What if a material inconsistency is identified in 'other information' obtained after the audit report is issued?

The auditor's responsibility for 'other information' applies regardless of whether the 'other information' is obtained *before* or *after* the date of the Auditor's Report. If a material misstatement is identified in the 'other information' obtained *before* audit report date, the auditor may request amendments and/or report the material misstatement in the 'Other Information' section of their report.

Less straight forward however, is the case where a material misstatement is identified in the 'other information' received *after* the date of the Auditor's Report, and those charged with governance will not make appropriate amendments. ISA 720 paragraph 19 states that the auditor "... takes appropriate action considering their legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the Auditor's Report is prepared".

How the auditor communicates with users is dependent on the entity and the number of users.

Whilst not a requirement, I have observed that some Auditor's Reports communicate to users the action they will undertake if there is a material inconsistency identified in the 'other information' obtained after the audit report is issued.

Next steps

As part of its post implementation review of ISA 720 the AUSAB will continue to conduct outreach and are seeking feedback. The objective is to understand our stakeholders views in relation to the application of this standard and if it is achieving its objectives. This understanding will inform our post implementation feedback to the IAASB.

Any comments or questions are welcome via the AUASB enquiries@auasb.gov.au.

