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Via email: m.grabowski@frc.org.uk

Dear Mr Grabowski

**Consultation Paper on Implementing the Recommendations of the Sharman Panel:
Revised Guidance on Going Concern and revised International Standards on Auditing
(CP)**

CPA Australia welcomes the opportunity to comment on the CP. CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest. In responding to the CP, we have provided some overall comments below and have not provided specific responses to the questions raised.

CPA Australia commends the work of the Sharman Panel (Panel) and the Financial Reporting Council (FRC) in seeking to address the challenges faced by directors, management and auditors in appropriately addressing Going Concern within financial reporting. Guidance on how to assess Going Concern should assist directors in the proper application of the Going Concept in the preparation of financial reports, and assist external auditors in their review of the directors assessment of Going Concern. Sufficiently clear disclosure of their assessments as proposed should lead to better understanding of the Going Concern concept, and an entity's ability to continue as a Going Concern (or otherwise), by users of financial reports. However, it is important to ensure that in further developing the proposals the concept of Going Concern is not altered by the introduction of new criteria and terms to describe Going Concern.

➤ **Engagement with international standard setters to achieve an internationally consistent approach**

We believe it is important to achieve a globally consistent approach to Going Concern in financial reporting, this aligns with our overarching view that an internationally consistent financial reporting framework is desirable for effective and efficient functioning of global capital markets. Accordingly, we support the Panel's recommendation that the FRC should seek to engage with the IASB and IAASB to develop and agree a common global approach to addressing Going Concern assessment and reporting, and associated audit implications.

We note that the IASB has considered the FRC's request and has tentatively decided, in its March 2013 meeting, to further develop proposals for Going Concern Guidance and disclosure to be incorporated in IAS 1 *Presentation of Financial Statements*. We encourage the FRC pursue dialogue with the IASB in furthering this project. We note that the proposals in the CP includes narrative disclosures in the annual report that falls outside the scope of the financial statements that form part of the annual report. The focus of the IASB in developing International Financial Reporting Standards (IFRS) is for the preparation of financial statements that are part of the annual report. Therefore, we suggest the FRC explore how best to achieve a globally consistent approach in relation to such narrative information through initiatives set to identify and engage other standard setters and regulators. Examples of such organisations include the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) and the International Organisation of Securities Commissions (IOSCO).

The IAASB is currently considering the audit implications of potential changes to Going Concern reporting in the context of its broader project on proposals to improve auditor reporting. There are some common themes between the work being undertaken by the IAASB as part of its project, and the proposals developed by the FRC in this CP. We encourage the FRC pursue a similar approach (as taken with the IASB) and work with the IAASB to develop auditing requirements that are consistent and applicable globally.

The IAASB is also considering as a separate project, revisions to ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*, which we believe has relevance to the proposals in the CP that require the auditor to consider narrative reporting in the annual report in relation to Going Concern. We have provided comments in response to the IAASB's consultation as part of its ISA 720 project and we have appended a copy of the same with this submission as we believe these comments are relevant to the proposals relating to the auditor's role as envisaged in the CP.

CPA Australia recommends to the FRC that in engaging with the IASB and IAASB as articulated above, the FRC should also take into consideration our following comments in relation to developing a description of Going Concern.

➤ **Developing a description of Going Concern**

The proposed Guidance takes note of the Panel's conclusions that there is scope for differing interpretations of Going Concern, as articulated in the financial reporting and auditing standards, and has sought to develop a common description of Going Concern. In developing this description, a number of new terms are being introduced (e.g. "high level of confidence", "sustain business model", "in the face of shocks").

It is our concern that in the pursuit of "clarifying" Going Concern, the development of a new description that introduces a number of new terms will give rise to a new meaning of the term "Going Concern" that results in a different decision as to when an entity can be considered to be a Going Concern. This approach to describing Going Concern hinders effective communication that is likely to cause a widening in the expectations gap that users of financial reports have in regard to both directors and auditors responsibilities in relation to Going Concern, and more broadly, financial reporting.

However, we believe there is real merit to much of the proposed Guidance, and accordingly we suggest the Guidance be linked to the underlying concept Going Concern as set out presently in the financial reporting and auditing standards, rather than through the development of a description that incorporates a number of new terms. In pursuit of a clearer understanding by users of financial reports of the Going Concern concept and the decision making process behind an entity's Going Concern assessment, CPA Australia supports the proposals included within the CP requiring directors to;

- make financial statement disclosures about their decision to adopt the Going Concern basis of accounting (or otherwise) and any material uncertainties; and
- provide narrative reporting outside the financial statements discussing an entity's performance, business model, strategy and principal risks in the context of the Going Concern assessment.

We also support the proposals to require explicit reference in the auditor's report to the conclusions drawn by auditors in relation to Going Concern (subject to our observations in relation to the work of the auditor on other information outside the financial statements).

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, CPA Australia by email at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a large, stylized loop at the top and a horizontal line extending to the right.

Alex Malley FCPA
Chief Executive

cc: M Shying
A Ghandar

APPENDIX

13 March 2013

James Gunn
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York NY 10017

Via electronic submission

Dear Mr Gunn

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 (the ED)

CPA Australia welcomes the opportunity to comment on the ED. CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia recognises the growing prominence placed on information outside audited financial statements for decision making in capital markets. In light of this trend, it is appropriate to reconsider the auditor's role in respect to such information. We commend the International Auditing and Assurance Standards Board (IAASB) for its efforts in tackling this increasingly important yet challenging development.

It is important to recognise the full extent of what is required to achieve the stated objectives of the ED in respect to significant changes in the nature and extent of information accompanying or related to audited financial statements and the auditor's report thereon. Conveying greater confidence on an expanded set of information used for decision making in capital markets reflects a significant increase in scope of financial statement audit, and potentially a different form of assurance. The ED attempts to gain efficiency in achieving this objective, by building on financial statement audit without a full recognition of the inherent scope increase or potential for users to derive assurance from the auditor's statements on other information.

The potentially problematic areas CPA Australia recognises within the ED (as outlined in Appendix), primarily stem from this approach. Overall, CPA Australia recommends a more full and unconstrained examination of what role auditing and assurance can and should play in meeting needs that exist within capital markets with respect to other information (as defined in the ED), and a more compact definition for the scope of revisions to ISA 720 in this current iteration.

CPA Australia's detailed responses to the ED are attached. If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

Alex Malley FCPA
Chief Executive

cc: A Ghandar

Appendix: Detailed response to the ED

Full assessment of auditor's role required

CPA Australia recognises the impetus for this project in the form of “significant changes in the nature and extent of information included in documents containing audited financial statements and the auditor's report thereon (such as annual reports)”. This impetus is further expanded as noted in the ED, due to “increasing and more diverse use of documents other than the annual report” by entities in disseminating information.

CPA Australia recommends a full and unconstrained examination of what role auditors and assurance practitioners should play in meeting the needs within capital markets in respect to other information. This would include consideration of:

1. How do the auditor's existing responsibilities in regard to other information need to be changed, given changes in how, and the type of information disseminated in capital markets?
2. Is there demand/need for an assurance conclusion to be conveyed in respect to certain types of other information?
3. What type of assurance, if any, is appropriate to be obtained, and how should this be conveyed to users?

In form, the ED primarily deals with point one above, however in the substance of the changes proposed to auditor's responsibilities, it appears to seek to address needs that may exist in respect to points two and three also, without fully recognising the ramifications. The result is that the reporting and responsibilities envisaged within the ED could create the impression that a form of assurance or confidence is being conveyed in respect to the other information, without this being underpinned by consistency with the *Framework for Audit and Assurance Engagements*, and potentially relevant assurance standards and concepts.

CPA Australia recommends to:

1. Limit the current revision of ISA 720 to documents contained within the annual report, or in the same document as the financial statements (note other comments below).
2. Consider other information outside the annual report in a wider examination of what the role of auditing and assurance should be, and importantly, how this role should be communicated with users.

Extension of scope

The ED reflects an increase in the scope of financial statement audits, in terms of both the work effort required, and the subject matter information on which the auditor passes comment in their reporting.

There are risks involved in extending the scope of the auditor's role in respect to other information without fully recognising that it *is a scope increase*. Users would potentially place a greater level of confidence in other information if this ED was issued and the auditor took on the role envisaged within it. If this perception is not supported by a level of assurance, and appropriate standards, there is a risk of exacerbating the expectations gap.

CPA Australia recommends further examination is required in order to set in place the underlying framework and standards required for an assurance practitioner to provide confidence to users as to whether other information ‘could reasonably be expected to influence their economic decisions’. Although not explicit, requiring the auditor to identify such instances is tantamount to an implicit conclusion in negative form.

Documents to be considered in-scope

The ED as currently drafted potentially scopes in documents that are released *after* the date of the auditor's report. This would entail a number of practical issues:

- The auditor keeping track of what documents have been released;
- The auditor keeping their audit file open despite jurisdictional requirements to close their file within a set period of issuing their opinion;
- Addressing or communicating any issues identified with users of the auditor's report.

CPA Australia recommends further analysis is required to identify how these practical issues could be addressed in implementing the standard. This also highlights why a more full examination of what the auditor's role should entail with respect to other information is important. Such an examination may indicate that the needs of stakeholders are more closely aligned with an explicit statement from an assurance practitioner in regard to certain types of other information, underpinned by assurance standards and framework.

Definition of inconsistencies

The operative paragraphs of the ED require the auditor to read and consider the other information and identify material inconsistencies. Para 9(a)(ii) of the ED defines inconsistency as including information that:

is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

This definition represents a significant expansion in the responsibilities of the auditor. Issues that may arise as a result of this are augmented by the lack of a reporting framework underlying other information in many instances, and the often subjective nature of assertions made in documents that could be scoped into other information.

CPA Australia recommends that this aspect of the definition of inconsistency is removed, and that the aspect outlined in para 9(a)(i) is sufficient.

Use of the word “accompanying”

The word “accompanying” is generally defined as to “be present or occur at the same time as something else”. While recognising this is a defined term in the standard, the use of this word in the title of the ED could potentially confuse given its usage in general language. The ED covers other information that is not released at the same time or together with the audited financial statements. CPA Australia recommends the use of a word that more closely reflects the meaning within the ED such as “related”, “connected with” or “associated”.