



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Prof Arnold Schilder
Chairman
International Auditing and Assurance
Standards Board
529 Fifth Avenue, 6th floor
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New York 10017 USA

Re: Exposure Draft – Proposed ISA 720 (Revised) *The Auditor’s Responsibilities Relating to Other Information*

Dear Professor Schilder

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB)’s exposure draft *Proposed International Standard on Auditing (ISA) 720 (Revised)* (the ED).

Generally, the IAIS believes that the content of the new ED is clearer and better presented than the 2012 ED and retains the initial objectives which aim at strengthening the auditor’s responsibility with respect to other information and providing appropriate information in the audit report on the work performed in relation to other information.

However, in our view, certain aspects of the ED could be further clarified or improved. They are as set out below.

Definition of the Scope

Based on the comments received on the 2012 ED, the IAASB concluded that ISA 720 should define the scope of other information by reference to information included in an entity’s “annual report.” This definition presumably would enable ISA 720 to be appropriately applied in light of different corporate reporting regimes and practices in a range of jurisdictions and circumstances. The primary objective of ISA 720 is to address the false comfort that users

get when non-audited information is included in the same annual report as audited information.

However, the determination of the document(s) to be included in the annual report, based only on the legal context of each jurisdiction, may not be as straightforward as the ED seems to suggest. This difficulty arises from the fact that the annual report may, according to the ED, be the result of the combination of several documents. If a series of separate documents are published, it is not always clear whether they form part of the annual report.

In our view, the cause of this issue is the definition of the annual report which is subject to differing interpretations. For example, paragraph 12(a) of the ISA states that an annual report is “a document, or a combination of documents, prepared... to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon...” Paragraph A3 goes on to explain that a separately issued report that has been prepared to comply with a specific regulatory reporting objective is not typically part of an annual report.

It is not clear from the above definition if solvency reports of firms, which include disclosures about the detailed quantitative and qualitative capital adequacy of firms, constitute part of the firms’ annual report when issued separately. While these reports are prepared to comply with a specific regulatory reporting objective, they are prepared for stakeholders of the firms and provide information on the entity’s financial results and financial position.

In its response to the 2012 ED, the IAIS commented that other information that has the primary purpose of providing commentary on insurers’ capital adequacy should be included in the scope of the revised standard. The final text should be very clear as to whether such reports, when published in a physically separate form to the annual report, should be deemed to be part of the annual report. Some believe that ISA 720 should state that a public report providing commentary on insurers’ capital adequacy is included in the scope of the revised standard.

Under the draft ISA’s definition, the content of the annual report may vary across jurisdictions. This means that the scope of the auditor’s work on the other information might be different across jurisdictions.

Definition of material misstatement of the other information

According to paragraph 12(b) of draft ISA, misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users. We struggle to understand how one would make an assessment of materiality that takes into account that “the other information is only part of the overall information available to users”.

The draft ISA refers to “material inconsistency” and “material misstatement” in various places. We would like to seek clarification on the interaction between these terms. Paragraph 16 of the draft ISA implies that a material inconsistency does not necessarily result in a material misstatement. Bearing that in mind, perhaps the ISA should clarify when ‘material inconsistencies’ result in ‘material misstatements’, and when they do not. The draft ISA needs also to explain what should be done about material inconsistencies that do not result in material misstatements.

Obtaining the other information

We are unsure whether the use of the word “may” in paragraphs A10 and A11 is intended to be descriptive or a soft requirement and, if it is the latter, why these are soft requirements, given the importance of the communications with management, or those charged with governance?

Reading and considering the other Information

Paragraph A23 provides some examples of limited procedures that the auditor may perform to evaluate the consistency between amounts or other items in the other information that are intended to summarise, or to provide greater detail about, the amounts or other items in the financial statements.

The IAIS believes that the procedures described should be seen as the minimum amount of work that needs to be undertaken by the auditor; auditors should not be allowed to use their judgment to do less.

Elements of proof and documentation

According to paragraph A30, when considering whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit, professional judgment is needed in deciding whether, and the extent to which, the auditor makes reference to auditor documentation, directs inquiries to members of the engagement team or a component auditor, or decides to base the consideration on the auditor’s recollection alone. Paragraph A32 notes that it is neither necessary nor practicable for the auditor to reference every matter in the other information to audit documentation.

The IAIS believes that all of the procedures described are important and auditors should be required perform all of the abovementioned procedures to the extent where it is relevant and practicable. Also, if the ISA allows auditors to use their judgment to determine whether and the extent to which these procedures are performed, it could result in inconsistent practices by different auditors on different other information.

Reporting implications of other information obtained after the date of the auditor’s report

In its response to the 2012 ED, the IAIS noted that the scope may include documents that may not be available at the date of the auditor’s report, in which case the auditor is not required to update his report or to report publicly on his conclusions. The IAIS considered that this lack of public disclosure is harmful and should be reconsidered.

According to paragraph 19 of the draft ISA, if the auditor determines that a material misstatement exists in other information that forms part of the annual report but is obtained after the date of the auditor’s report, the auditor shall take appropriate action, taking into account the auditor’s legal rights and obligations, if the other information is not corrected after communicating with management and those charged with governance. Taking into account that in many jurisdictions the auditor is either prohibited from re-issuing or amending the auditor’s report after it is issued, or there is no local law or regulation that explicitly addresses whether reissuance or amendment is permitted, the IAASB does not require reissuance or amendment of the auditor’s report, as this may result in conflicts with local

laws or regulations, and therefore would not address the underlying issue in a globally consistent manner.

We acknowledge that requiring an auditor to re-issue its report might conflict with local law. However, we do not believe that an ISA should simply require an auditor to take “appropriate action”, as this standard does in several places. We are not convinced such references have any place in an ISA at all (the alternative seems to be to take inappropriate action and no auditor will admit to doing that). More importantly, it means that the IAASB’s ability to impose appropriate requirements can be limited by an inappropriate piece of law making in one jurisdiction. This approach would undermine the ability of the IAASB to promote the enhancement of the quality and consistency of practice throughout the world. The IAIS believes that the ISA should specify the action that should be taken if the law permits, and then acknowledge that, if the law does not permit that action, alternative appropriate action will need to be taken. Moreover, if a potential prohibition from re-issuing a report exists, this fact should be explicitly disclosed in the report.

This letter was prepared on behalf of the IAIS by its Accounting and Auditing Issues Subcommittee (AAISC). The AAISC’s membership represents a subset of all IAIS members. Therefore individual members of the IAIS may have views that differ in some respects from the views expressed in this letter.

If you have questions regarding this letter, please contact Markus Grund, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,



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