



The Institute of
Chartered Accountants
of Pakistan

HEAD OFFICE

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ICAP COMMENTS ON EXPOSURE DRAFT 'ISA 720 (REVISED) 'THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO OTHER ISAS'

Dear Sir/Madam,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above Exposure Draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal. If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

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(Established under the Chartered Accountants Ordinance, 1961-X of 1961)

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ISA 720 (REVISED) 'THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO OTHER ISAS'

Our comments are disaggregated into general and special comments as set out below:

GENERAL COMMENTS:

Definition of other information

The scope of the definition of 'other information' has been extended to include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements. Since, the proposed ISA only requires to perform 'limited procedures' in respect of other information; it would be inappropriate to apply the limited procedures for the above mentioned other information as well. Accordingly, the auditor should design the audit procedures of the same nature and extent for the other information related to the summary or details with which he performed the audit of the amounts actually presented in the financial statements. For example, if the breakup or details of the line item of Revenue is not presented in the financial statements and a breakup or details of such amount is presented in other information, the auditor should design and perform the same extent of audit procedures as performed for the verification of the line item of Revenue. Consequently, the scope of limited procedures should only be applied to that other information which has not been covered directly or indirectly in the financial statements.

Implications for the audit report

The proposed ISA 720 requires the auditor to determine implications for the auditor's report if there is material inconsistency in other information and the management refuses to correct it. This revision will add to the value of the auditor's report and will build economic user's confidence on other information. Since, other information is a great source for the shareholders and stakeholders to make economic and other decisions; the endorsement by the auditor's report though limited to the words 'We have nothing to report' will enhance the credibility of other information.

Moreover, old ISA required the auditor to take any further appropriate action in case the management refuses to correct it. This included considering legal advice. Proposed ISA 720 requires the auditor to consider implications for the audit report in addition to considering legal advice. This amendment has made explicit requirements for the auditor which old ISA did not have. This will facilitate in better understanding and implementation of the requirements of the ISA.

Disclaimer of opinion and withdrawal from the engagement

The proposed ISA 720 requires disclaiming the opinion on the Financial Statements when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

Moreover, proposed ISA 720 also gives an option to the auditor to withdraw from the engagement when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Both of the above measures will require the management to consider the reliability and the authenticity of the other information more extensively. Consequently, only those news and information can be presented which can be substantiated and verified.

Written representation

Proposed ISA 720 provides some examples of written representations which the auditor may find useful to obtain:

- That management will inform the auditor of all other information that it expects to issue;
- That management has provided the auditor with the final version of all other information; and
- That the financial statements and other information are consistent with one another, and the other information does not contain any material misstatements.

Accordingly, the auditor should be required to obtain written representation of the future proposed actions and decisions of the management which may have significant impact on the economic users of the other information.

Other information obtained after the date of auditor's report

The proposed ISA 720 requires the auditor to include description of other information received **at the date** of the auditor's report in the auditor's report.

Therefore, either of the following should be required to enhance transparency:

- The other information should be differentiated between those received on or before the date of auditor's report and subsequently thereon; or
- The auditor should be required to identify such other information in the auditor's report and future course of action if there is material inconsistency.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

The proposed ISA 720 refers to circumstances when the auditor's opinion is qualified, in such cases the said ISA proposed to consider as to whether the other information is also materially misstated for the same reason. However, proposed ISA does not address or provide example how the 'other information' area of the auditor's report be reported in such cases.

Auditor's responsibilities in relation to other information obtained after the date of auditor's report

The proposed ISA 720 does not require the auditor to provide description of the action(s) the auditor would take regarding other information obtained after the date of auditor's report if the auditor were to determine subsequently that there is a material misstatement of that other information.

In our view, provision of such information would enhance the user confidence in such information.

Use of the title 'annual report'

The use of the title 'annual report' is inappropriate. Some companies (usually listed companies) present quarterly and half yearly reports for users of the financial statements. In many jurisdictions, half yearly reports are required to be reviewed by the auditors. In such cases, the auditor should have same responsibilities for the half yearly reports in relation to other information as the annual report. Consequently, the use of the title 'annual report' is not appropriate.

Material inconsistency between other information and auditor's knowledge obtained during the course of the audit

The proposed ISA 720 does not contain sufficient explanation about the implications for the audit report in case of material inconsistency between other information and auditor's knowledge obtained during the course of the audit.

Prospective information contained in other information

Other information may contain prospective information which would involve complex calculations, for example, future cash flows from any specific project etc requiring audit procedures. Keeping into consideration, that the auditor's report include reporting on 'other information', if such information cannot be verified after performing limited procedures which would usually be the case; the auditor should be required to incorporate other matter paragraph in respect of such matter unless the auditor has separately performed an assurance or review engagement in respect of such information.

Items from other information to select

Proposed ISA 720 implies that the auditor is not required to perform limited procedures on all the information presented as 'other information'. It leaves on auditor's professional judgment the determination of which amounts or other items in the other information to select and the determination of the extent of procedures necessary in the circumstances for the purpose of evaluating the consistency with the financial statements is a matter of professional judgment. In our view, the auditor should be required to perform procedures on the whole other information. However, the nature and extent of procedures may vary as per the professional judgment of the auditor.

Sufficiency of limited procedures

Keeping into consideration the importance of other information for the economic decisions of the users and other stakeholders; therefore, the limited procedures would not meet the desired assurance intended by the users. In our opinion, a separate assurance engagement should be made to appropriately report on other information. The separate engagement may take the form of limited assurance.

SPECIFIC COMMENTS:**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.

Reply**i. Scope:**

ED defines other information as the financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Further, as per paragraph 5 of ED other information may have three major components as depicted below:

- (i) amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements;
- (ii) other amounts or other items about which the auditor has obtained knowledge during the course of the audit;
- (iii) other information may also include other matters.

Moreover, paragraph 2 of ED inter alia states that the auditor's opinion on the financial statements does not cover the other information, nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

In view of paragraph 2 of ED, obviously, auditor will have no difficulties in performing limited procedures with respect to the amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements. However, there may be serious concerns, in practice, as to the other information that includes the amounts, items or matters which are not reflected in the amounts and other items disclosed in the financial statements.

Typically the Annual Reports contain financial (qualitative and quantitative) analysis and charts spanning over a number of preceding years. Similarly, future projections, forecasts, management's expectations with the future business performance are also a part of the Annual Reports. Such information covering past or future periods, or other matters which may involve highly technical expertise to produce other information, may not practically be in the scope of audit of financial statements which is the primary purpose of the audit engagement. Auditor may not be in a position, for a number of reasons including the costs associated with such exercise, to refer back to all those earlier years, or to perform audit procedures pertaining to the prospective information, or to employ all the technical expertise to perform limited procedures on the technically complex information and report thereon.

Since the ED clarifies that the auditor is not supposed to obtain audit evidence beyond that required to form an opinion on the financial statements, therefore, there may be a need to reconsider the components of other information which do not specifically relate to the reporting period under audit, involve analysis or information of preceding or future periods, or involves highly technical expertise to produce other information, should be covered in the scope of this ISA or not.

ii. Objective:

Objectives of ED inter alia require considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit.

In our view this objective clause subjectively expands the auditor's responsibility from the core objective that the other information should not be inconsistent with the information contained in the financial statements, and may result in unduly broadening of the expectation gap and reducing the clarity for the users.

iii. Definitions:

Although the ED provides the application guidance with respect to the use of term 'Consider' so that the involvement of work regarding reading and considering other information can be explained, however, this term has not specifically been defined.

We believe that a definition of 'Consider' exclusively for the purpose of this ISA, and not for the rest of ISAs or pronouncements, may be beneficial for its exact implementation to the required extent, and may remove the ambiguities concerning its nature and extent.

iv. Requirements – Obtaining the other information:

The ED requires auditor to determine through discussions with the management which documents comprise the annual report, and the entity's planned timing of the issuance of such documents.

Nonetheless, ED is silent on the audit documentation of such discussions with the management which may be of extreme significance. In our view, ED should guide as to the nature and extent of audit documentation regarding the discussion with management, inquiring the envisaged issuance dates, and making appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of those documents.

ED should also cover documentation aspects of other significant procedures enumerated in the proposed ISA.

v. Requirements – Reading and considering the other information:

No comments, except for the clause 14(b) which have already been covered under the heading 'Objectives' above.

vi. Requirements – Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated:

Regarding other information obtained after the date of the auditor's report, paragraph 19 (b) of ED requires taking 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.

Further, application and Other Explanatory Material (paragraph A45) also provides a list of appropriate actions that the auditor may consider taking, when permitted by law or regulation, which include the following:

- reissuing the auditor's report to include a modified statement as per paragraph 21(d)(ii);

- bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared;
- communicating with a regulator or relevant professional body; or
- withdrawing from the audit.

It is suggested that taking of 'appropriate actions' should not be left merely on the judgment and explicit guidance should be provided with respect to the circumstances in which each of the above 'appropriate actions' should be taken or avoided.

Question-2

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

Reply

Yes, except for the reservation mentioned under the heading 'Scope'.

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.

Reply

We believe the revised ED will increase users' understanding as to the nature of work performed by the auditor on 'other information' while framing opinion on the financial statements, and will make the Annual Report more useful and reliable in view of an understanding that other information has also been considered by the auditor. The revised ED clarifies that auditor will carry out 'limited procedures' which are not supposed to provide 'assurance' on the Other Information contained in the Annual Report along with financial statements.

However, irrespective of stating that the auditor has not audited the other information and accordingly does not express an audit opinion or any form of assurance conclusion thereon, the inclusion of a separate section in auditor's report on 'other information' made available to the auditor and auditor's statement thereon poses the unavoidable risk of conveying a wrong perception to the users as well as to the regulators in certain jurisdictions about the work performed by the auditor and the purpose of the statement included in the report if no assurance is meant by it. Due to this, there may arise an expectation gap between the auditor's responsibilities under this ISA and the reliance placed by users.

b) ED has avoided documenting the management's responsibility in the report with a stated objective that the report may not reflect that auditor's work provides 'assurance'. However, how excluding the management's responsibility will help clarifying that no assurance is being provided, has not been explained by the ED.

c) There may also be a practical problem as to provide a long list of other information in the auditor's report, the final version of which has been made available to the auditor at the date of his report. Certain entities e.g. central banks produce voluminous Annual Reports comprising a number of reports, analysis sheets, regulatory initiatives taken, fiscal and monetary policies issued and other economic reviews (which may or may not have a linkage with the scope of audit of the financial statements). Supposedly, if all such other information is provided to the auditor and is also determined to be subject to his limited

procedures under the proposed ISA, producing such a long list may over-emphasize this section of the report for the users.

d) As per paragraph A47 of the proposed ISA, when the auditor has not obtained the final version of the other information prior to the date of the auditor's report, this ISA does not require the auditor to include a section in the auditor's report addressing other information.

It is suggested that in such case, instead of keeping the report silent, it should explicitly state that none of the final version of other information to be included in the Annual Report has been produced to the auditor for his consideration, and, therefore, auditor has not performed any limited procedures to check its consistency with the financial statements audited by him.

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.

Reply

We agree that other information that has not been provided to the auditor should not be identified in the auditor's report. This may also be significant because in certain jurisdictions there may not be fix or pre-determined list of all the components of other information which management may include in the Annual Report, and there may be certain other information included in the Annual Report which auditor may not be aware of at the date of his report.