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International Auditing and Assurance  
Standards Board (IAASB)  
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## **The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's report Thereon – ISA 720 (Revised)**

FAR, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the exposure draft *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's report Thereon – ISA 720 (Revised)*.

### **FAR's general comments**

FAR agrees that there is a need for change in how the auditor communicates in the auditor's report. The auditor's responsibilities in relation to other information are not specifically dealt with in the current auditor's report (ISA 700). FAR therefore welcomes that the IAASB gives the area special attention in this exposure draft, about how and where this responsibility should be communicated. In FAR's response to the IAASB's *Invitation to Comment Document: Improving the Auditor's report*, FAR expressed that if the auditor in the auditor's report makes a statement concerning other information, such as "We have not identified material inconsistencies in the other information...", then that is a statement very similar to a conclusion and should be placed in the Opinion paragraph. In the auditor's report on a Swedish entity's annual financial statement, the auditor already expresses opinions in the opinion paragraph concerning the consistency between the management report and the corporate governance statement with the financial statements.

Regarding the scope of other information, FAR does not agree that the scope should be increased. By including information that is "issued by the entity in connection with the initial release" and "accompanies the audited financial statements and the auditor's report thereon and has a primary purpose to enhance the user's understanding of the audited financial statements or the financial reporting process" paragraph 9 (c) in ISA 720 (Revised), FAR is concerned that the IAASB is introducing a responsibility that will be difficult to apply for the auditor and almost impossible to understand for the users of the auditor's report. Any deterioration in the users' ability to understand the audit will most probably increase the expectation gap.

FAR is also concerned that the concept "read and consider" in ISA 720 (revised) is understood in a way that the scope of the audit in relation to the other information is increased. FAR believes that ISA 720 (revised) now indicates that "read and consider" should comprise the understanding of the whole engagement team, component auditors

and possibly also all information contained in the working papers. FAR is also concerned that paragraph A37 increases the responsibility by requiring the auditor to agree all financial information in the other information to the financial statements. These matters would, in FAR's opinion, constitute a significant increase in the auditor's responsibility, which FAR does not support. If the IAASB has no intention of increasing the responsibilities in these respects, that must be made clear in the standard. In summary, FAR believes that the scope in the present ISA 720 shall remain, and that the only increase in the auditor's responsibility shall be that the auditor shall communicate how he or she has been involved with the other information.

#### **A final comment**

The purpose of an audit according to ISA 200 paragraph 3 is to enhance the degree of confidence of intended users in the financial statements, and this is achieved by the auditor's expression of an opinion over the financial statements. By ISA 720 (revised), FAR believes that the IAASB introduces a new and broader purpose for ISA, namely the auditor's responsibility for the other information as such. In FAR's view, this change may be regarded as the introduction of a new assignment in ISA besides the audit of the financial statements. FAR believes that there may be a demand for such a new assignment, but that the IAASB can hardly make it compulsory by increasing the scope of an ISA. FAR therefore suggests that the IAASB, instead of increasing the scope of ISA, issues a separate standard outside ISA to deal with such assignments.

FAR

A handwritten signature in black ink, appearing to be 'Bo Hjalmarsson'.

Bo Hjalmarsson  
Chairman FAR Auditing Policy Group



## Appendix

*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?*

### **FAR's response**

FAR believes that there is a need to improve the communication of the auditor's responsibilities under current ISA 720 with regard to "other information" since it deserves more attention than is the case at present. FAR therefore agrees that the auditor should address these activities in the auditor's report. However, FAR does not support an extended scope of ISA 720, neither by increasing other information to include accompanying documents nor increasing the auditor's responsibilities in regard of "read and consider". These matters are further discussed in FAR's responses to questions 2 and 8.

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

### **FAR's response**

FAR believes that reporting of the auditor's current activities under ISA 720 will provide users of the auditor's report with valuable information of the audit. However, if the auditor's involvement with other information shall be clarified in the auditor's report, it is important that also management's responsibility with regard to other information is clarified. FAR recommends the IAASB to consider how management's responsibility should be clarified.

However, FAR is sceptical to the merits in extending the auditor's responsibilities to documents accompanying the audited financial statements. FAR is concerned that users of the auditor's report will not be able to separate documents that are within the scope of ISA 720 (revised) from other documents issued by an entity, thus increasing the expectation gap. FAR is aware that paragraph 16(b) in ISA 720 (revised) requires the auditor to identify other information in the auditor's report, and thereby inform users of the auditor's report about the scope. However, the auditor can only identify information that was obtained prior to the date of the auditor's report, and moreover FAR believes it is unrealistic to expect that users of the auditor's report actually will study the auditor's list of other information. Also, situations when "accompanying documents" are changed by management subsequently to the date of the auditor's report, or when the "accompanying documents" were obtained after the date of the auditor's report, will create difficult considerations for the auditor in relation to the responsibilities to act in relation to ISA 560.

*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?*

**FAR's response**

Generally, considerations are required by the auditor to determine both the date for initial release in ISA 720 (revised) and the date when the audited financial statements are issued (ISA 560), based on the regulatory environment. FAR does not believe that auditors will encounter any special problem in determining the date for initial release and to understand that it may be different from the date of issuance. However, for users of the auditor's report it may be difficult to understand the difference between these two dates.

*4. Do respondents agree that the limited circumstances in which a 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 with procedures the auditor may otherwise be required to perform pursuant to national requirements?*

**FAR's response**

FAR believes that securities offering documents in scope of ISA 720 (revised) paragraph 9 (c) should remain in scope. FAR does not believe that the requirements in ISA 720 (revised) will be in conflict with or duplicate work performed in accordance with national requirements in Sweden.

*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 entity 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?*

**FAR's response**

FAR believes that the application paragraphs A28–A43 generally describe the meaning of “in light of the auditor's understanding of the entity and its environment acquired during the audit” in a reasonable manner. With regard to other information which the auditor is not expected to have relevant understanding, FAR believes that more specific IAASB guidance is required to avoid any risk of the auditor increasing the audit scope.

*(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?*

**FAR's response**

It is clear in paragraph A31 that the auditor shall consider inconsistencies with both the audited financial statements and the auditor's understanding of the entity and its

environment based on the audit. FAR believes that this could be made clearer if it was also stated in paragraph 8 or paragraph 11.

*6. Do respondents agree that the definitions of terms of "inconsistency" including the concept of omissions and "a material inconsistency in the other information" are appropriate?*

**FAR's response**

According to paragraph 9 (a), an auditor shall identify if the other information is presented in a way that it omits and obscures the information. The exposure draft of ISA 720 (Revised) includes however very little guidance over what constitutes an omission or what obscures the information. FAR realises that these concepts mostly must depend on the auditor's professional judgement, but further guidance would be helpful.

*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 auditor's understanding of the entity and its environment acquired during the course of the audit?*

**FAR's response**

FAR believes that it is uncertain whether users of auditors' reports will understand the term inconsistency as an inaccuracy in the other information. FAR recommends the IAASB to review the wording in paragraph 16 (c) and paragraph A57 in order for the auditor's report to more clearly explain that the term inconsistency should be understood as an inaccuracy.

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

**FAR's response**

FAR believes it is important that ISA 720 (revised) is principles-based when it comes to the auditor's determination of the extent of work to be performed. FAR has the following comments:

Paragraphs A32 and A41 deal with information contained in the other information over which the auditor cannot be expected to have an understanding. The paragraphs state that there is no requirement on the auditor to extend the audit to obtain such understanding. To avoid any misunderstanding it would be helpful if that was stated also in paragraph 11.

Paragraph 8 is stating that the auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, while paragraphs A33 and A34 deal with how an auditor delegates the "reading and consideration" to other engagement team members (and to component auditors when relevant). FAR believes it should be clarified whether ISA 720 (revised) require that the "reading and consideration" should be based on the engagement partner's

understanding or the accumulated understanding of the whole engagement team including component auditor's and even extended to the auditor's expert's understanding .

*(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?*

**FAR's response**

Regarding the extent of expected work by the auditor, FAR believes that paragraph A37 may indicate more work by the auditor than the current ISA 720. This seems to be the case in categories (a) and (c) which seem to require that reconcilable financial information shall be agreed with the audited financial statements. FAR is concerned that a requirement to agree all quantitative financial information in the other information is too burdensome.

*(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?*

**FAR's response**

FAR is concerned over the risk that auditors increase their audit scope in order to be able to "read and consider" all information contained in the other information. As already stated in the response to question 8, FAR recommends that the IAASB makes additions to paragraph 11 so it clearly states that ISA 720 (revised) does not extend the scope of the audit.

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

**FAR's response**

Yes.

*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?*

**FAR's response**

Yes, FAR believes that paragraphs 15, A49 and A55 sufficiently explain what the auditor's response should be in that situation.

*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 our 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?*

**FAR's response**

FAR believes that "in light of our understanding of the entity and its environment acquired during our audit", will be understood by the users of the auditor's report. However, FAR is

concerned over the terminology “read and consider” and believes that by adding the term "consider", the scope of the audit will be increased which is also discussed in FAR’s response to question 8. As discussed in the response to question 7 above, FAR is also concerned that the users of the auditor's report may not understand the meaning of “material inconsistencies” as inaccuracies in the other information, since that is not the common meaning of "inconsistencies".

*(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?*

**FAR's response**

FAR believes that users of the auditor's report will have difficulties in understanding the conclusion in the auditor’s report "We have not identified material inconsistencies in the other information" and why it does not represent any level of assurance that there are no material inconsistencies. Since it may be difficult to understand the auditor’s responsibility in relation to the other information, it is important that the entity clearly explains the responsibility that management has in relation to the other information.

*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?*

**FAR's response**

FAR assumes that question 12 is asking for the "level of comfort", since question 11 already explains that no assurance is expressed by the auditor. Regarding the level of comfort provided by applying ISA 720 (revised) FAR has already stated in question 1 above that the level of comfort would be sufficient with the scope of other information according to the current ISA 720, i.e. FAR does not support an increase of the scope to documents accompanying the audited financial statements.