



11 March 2013

Ref: 13/26

Prof. Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York,
New York 10017 USA

Dear Professor Schilder,

Proposed International Standard on Auditing (ISA) 720 (Revised)

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to respond to the International Auditing and Assurance Standards Board's Invitation to Comment on the proposed revision of ISA 720.

We are fully supportive of the objectives and the outlines of the proposed revision of ISA 720. These are consistent with the views expressed by the IAIS in its previous responses to requests for comments regarding the changes to the auditor's report.

However, we have concerns in two areas:

- The definition of other information is not sufficiently clear, and is open to interpretation. The concept of other information should be better and more narrowly defined as well as more clearly illustrated in the guidance.
- The IAIS Insurance Core Principles¹ require insurers to publicly disclose appropriately detailed quantitative and qualitative information about capital adequacy. An insurer should therefore disclose information that enables users to evaluate the insurer's objectives, policies and processes for managing capital and to assess its capital adequacy. The IAIS strongly believes 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. Under the proposed guidance, the auditor would have the responsibility to read and consider the other information included in certain documents within the scope of the revised ISA. In some cases, that may include documents that may not be available at the date of the auditor's report, in which case

¹ IAIS Insurance Core Principle 20 and ICP Standard 20.3

the auditor is not required to update his report or to report publicly on his conclusions. We believe that this absence of public disclosure is harmful and should be reconsidered.

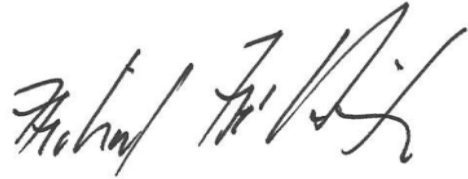
The appendix provides the IAIS' responses to the questions set out in the paper.

If you have questions regarding this letter, please contact Aina Liepins at the IAIS Secretariat (tel: +41 61 280 8199; email: aina.liepins@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,



Peter Braumüller
Chair, Executive Committee



Michael McRaith
Chair, Technical Committee

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?

The issuance by an audited entity of documents including other information that is materially inconsistent with the audited financial statements or with the auditor's understanding of the entity and its environment undermines the credibility of the financial statements and of the work of the auditors, and could inappropriately influence the economic decisions of the users.

We agree that it is clearly in the public interest to strengthen the responsibilities of the auditors with respect to other information in documents containing or accompanying the audited financial statements and the auditor's report. We believe that the proposed revision increases the value of the audit.

While we agree that the requirements included in this revised ISA do not expand the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements, there should be some acknowledgement in the standard that the amount of work performed by the auditor will likely increase and will place more demands on senior members of the audit team who have the necessary experience as explained in A33 - A37.

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?

We are supportive of expanding the auditor's procedures to include documents accompanying the audited financial statements and the auditor's report insofar as the documents have the primary purpose of providing commentary to enhance the user's understanding of the audited financial statements or the financial reporting process.

However, we have concerns that the proposed revisions may provide undertakings with incentives to structure their reporting to either exclude some other information from the scope of the standard or to time the release of other information so that it is not covered by a statement in the auditor's report. Some other information that is within the scope of the revised ISA would not be covered by the auditor's report if the document including this information is only made available after the date of the auditor's report (see our response to question 12). Such matters are outside of the control of the auditor, and the auditor's work and report thereon should not have the effect of making the auditor accountable in those circumstances.

Therefore, we feel that the definition of other information is not sufficiently clear:

- On one hand, A 13 sets out that "Accompanying documents that do not have a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process are outside the scope of this ISA. Examples include separate documents issued by the entity, such as:
 - Corporate social responsibility reports.
 - Sustainability reports.
 - Diversity and equal opportunity reports.
 - Product responsibility reports.
 - Labour practices and working conditions reports.
 - Human rights reports.

However, if any information of this nature is contained in a document that is within the scope of this ISA, it would be subject to the requirements of this ISA, including for the auditor to read and consider it.”

- On the other hand, A11 and A12 provide only a few examples of documents which would be within the scope of the revised ISA.

We believe that the concept of information in documents that have the primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process should be more clearly defined and that it should be defined broadly enough to include insurers’ reports on capital adequacy.

The IAIS Insurance Core Principles require supervisors to have in place requirements for insurers to publicly disclose detailed quantitative and qualitative information about capital adequacy. Thus, an insurer should disclose information that enables users to evaluate the insurer’s objectives, policies and processes for managing capital and to assess its capital adequacy. As it is emphasized in IAS1², such information serves to enhance the user’s understanding of the audited financial statements. Consequently, we believe that quantitative and qualitative information about capital adequacy included in publicly reported “other information” is within the scope of the revised standard. Therefore, we suggest that to improve the definition and examples of other information that are already provided, the proposed ISA 720 should state that the public reporting of such other information by insurers under IAIS Insurance Core Principle 20 is in the scope of IAS 720.

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?

We agree that the concept of initial release is clear and understandable and should be distinguished from the date the financial statements are issued as defined in ISA 560.

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?

No comment

² As part of the audit of financial statements prepared under IFRS, auditors are required to evaluate the entity’s objectives, policies and processes for managing capital Refer IAS 1 Presentation of Financial Statements (paras 134 – 136). When an audit is conducted in accordance with the international audit framework (IASs), the audit of the disclosure would require an evaluation of objectives, policies and processes for managing capital.

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?**
- (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?**

We believe that the objective, which is to 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, refers to various existing concepts already included in current ISAs and which should be well known to the auditors. However, we would like to highlight that the auditors gain their understanding of the environment not only from a particular audit, but also from general training and knowledge, other audits, industry experience, and so on.

We suggest that the word “environment” could be further clarified in the application guidance. Paragraph A28(a) refers to “the relevant industry, regulatory, and other external factors.” It may be useful to also refer to economic conditions.

Concerning question 5 b, even though the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements, the auditor’s responsibilities should cover reading and considering the other information for consistency with the auditor’s understanding of the entity and its environment.

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?

We agree with the definition of inconsistency included in the proposed revised ISA. In particular, we agree that the definition properly includes omitting or obscuring information as well as presenting incorrect, unreasonable or inappropriate information.

We are supportive of the concept of “material inconsistency” in the proposed revised ISA. Material inconsistencies can influence the economic decisions of the users and the basis of useful information considered as a whole, including the audited financial statements and the other information.

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?

We are not convinced that users will be aware of the particular meaning of inconsistency in the proposed revised ISA. Thus, we believe that it would be useful to include the definition of inconsistency in the audit report.

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?**
- (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?**
- (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?**

No comment on 8 (a) and (b).

For question 8 (c), see our comment in question 1.

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

No comment

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?

No comment

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?**
- (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?**

In our view, the auditor’s report should state that the consistency of other information is first and foremost the responsibility of management. The report should then set out the auditor’s responsibilities with respect to such other information and whether or not there are any findings. With respect to the questions set out above:

- 11(a): We believe that the statement proposed in the draft revision to ISA is clear and that would likely narrow the expectations gap. However, as set out in our response to question 7, we believe that it would be useful to include a definition of “inconsistency” in the auditor’s report.
- 11(b): We believe that the conclusion is clear and understandable for the users.

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?

We have a concern regarding other information that is not available at the date of the auditor's report. We understand that while the auditor has the responsibility to read and consider the other information included in a document issued subsequent to the date of the auditor's report as long as it is in the scope of the revised ISA, the auditor is not required to update his report or to report publicly on his conclusions.

We believe this could provide entities with a perverse incentive to delay the publication of sensitive documents.

We believe the auditor's report should clearly state that a specified document containing important additional information has not been examined because it was not available before the date of the auditor's report. We also believe that the auditor should be required to update his report or at least to report publicly on his conclusions when the specified document is available.