



# ICGN

International Corporate Governance Network

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Dear Mr. Gunn,

**Re: IAASB Exposure Draft Auditor's Responsibilities Relating to other Information.**

Thank you for IAASB's invitation to comment on the proposed 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*'. We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$18 trillion.

The ICGN's mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through its Committees. We promote best practice guidance, encourage leadership development and keep our members informed of emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

The purpose of the Accounting and Auditing Practices Committee (AAPC) is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world: [http://www.icgn.org/policy\\_committees/accounting-and-auditing-practices-committee/](http://www.icgn.org/policy_committees/accounting-and-auditing-practices-committee/)

The ICGN wishes to express our support for the IAASB's dedicated and continuing work to improve audit quality and increase the value of the audit for users. We believe that the proposals made in the Exposure Draft strike the right balance between the need for enhancing auditor's responsibility with respect to other information, the need for auditors' reports to be prepared under standards that are consistently applied and that are cost beneficial. In particular, we are encouraged by the IAASB consulting the wider user community particularly in respect to the reporting aspects of the proposed ISA.

We are pleased to provide some general comments as well as comments on the specific questions in the document.

## **General comments**

The ICGN notes that institutional investors rely heavily on management's disclosures so as to make sound investments decisions and to be able to act as engaged shareholders. At a time when business and the provision of finance is becoming increasingly complex and globalised, investors require reliable in-depth information on strategic and major operational risks related to the company's business model and the way the company manages those risks. Investors are also increasingly demanding for in depth information on the company's corporate governance, remuneration and sustainability policies.

Most of this information cannot be found in the annual financial statements and the auditor report thereon, but in other sources of information. This 'other information'<sup>1</sup>, in particular the information in documents containing or accompanying the audited financial statements (Annual Report), is of paramount importance for institutional investors' analysis.

Investors need to have confidence in the integrity of the other information they receive within and outside the Annual Report. Yet, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. The auditor is only required to read the other information for consistency with the financial statements, according to the current ISA 720.

Therefore, ICGN supports the IAASB proposals to extend the auditor's responsibilities towards other information as set out in the Exposure Draft. The proposals fit with users' increased needs of reliable other information (alongside financial statements) in the modern and highly complex financial and investment environment and are in-line with our support and the global development towards more 'integrated reporting'. Additionally, the proposed enhanced disclosure of the auditor's work with respect to other information provides greater transparency to the work carried out by auditors in relation to the Annual Report as a whole.

### **Question 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?*

ICGN agrees with IAASB's there is a need to strengthen the auditor's responsibilities regarding other information. Whilst the focus of auditors is still almost exclusively on the financial statements, other information has become more important to users. Companies are increasingly required, by legislation, codes and sometimes users, to

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<sup>1</sup> "Other information" is defined in the ISAs as financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon (i.e., the entity's annual or financial report). Management Discussion and Analysis (MD&A), operating and financial review (OFR) statements, or other narrative sections of an entity's financial report that address both historical and prospective information are considered to be other information.

include narrative and qualitative information in documents containing or accompanying financial statements. Also, the complexity of accounting standards has led companies to include extensive material in Annual Reports to support the information now in financial statements. Much of the other information disclosed is significant to institutional investors and has the potential to materially affect the economic decisions of users.

ICGN believes that it would not be appropriate to require auditors to provide a separate audit opinion on other information. Yet we concur with IAASB, it is reasonable and necessary to require auditors to report, whether they are aware of any facts or matters in the other information that are incorrect or materially inconsistent with the information contained in the financial statements *and/or* auditor's understanding of the company gained through the audit. We feel such a concept would both impose the value of the audit and be cost effective.

#### **Question 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?*

ICGN supports the broadening of the scope of the proposed ISA to include not only information in documents *containing* financial statements but also documents that *accompany* the audited financial statements as long the accompanying documents have a primary purpose to enhance users' understanding of the financial statements and the financial process. We feel the IAASB is right (Ref: Para A12) that such accompanying documents within the scope of the proposed ISA include (but are not always limited to): Management report/director's reports, Chairman's statements, Corporate governance statements and Internal control and risk assessments reports.

#### **Question 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?*

The ICGN feels the criterion of 'initial release', paragraph 9 (b), is clear and understandable.

ICGN supports the approach that documents disclosed after the initial release are deemed to be issued *in connection with* the initial release if the other information contained in them addresses the *same reporting period* as the audited financial statements (Ref: Para A5).

#### **Question 5**

*Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular 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?*

The ICGN endorses IAASB's aim to strengthen auditors' ability to identify if there may be material inconsistencies in the other information and, if so, respond appropriately. The proposed enhanced obligation on the auditor to read and consider the other information *in light of the auditor's understanding of the entity and its environment acquired during the audit* certainly helps to achieve this aim (Ref:

Para 8 (a)). We consider the approach appropriate and clear in the light of the extensive and profound guidance as proposed by IAASB (Ref: Para A28-A43).

**Question 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?*

ICGN believes the proposed definition of terms on 'inconsistency' is clear. We agree with the proposed enhanced auditor obligation in assessing inconsistencies. Along with the other information and the audited financial statements, auditors should consider their understanding of the entity, its environment, and their overarching impression based on discussions with the audit committee, board and other relevant experiences.

Inconsistency would exist when the other information:

- a) contains information that is incorrect, unreasonable or inappropriate
- b) is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

ICGN also supports IAASB's approach that a material inconsistency occurs when the inconsistency could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole (Ref: Para 9 (a)).

Also, we feel that IAASB rightly proposes that other information that is materially false or misleading in accordance with relevant ethical standards, should be qualified by its nature as materially inconsistent (Ref: Para A2).

**Question 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?*

ICGN supports the suggested requirement to include a clear and explicit statement in auditor reports on whether material inconsistencies in the other information have been identified in light of auditor's understanding of the entity and its environment acquired during the audit. It is also important that the statutory auditor specifically identifies in the auditor's report the other information read and considered.

When the statutory auditor identifies a material inconsistency for which revision is necessary and management refuses to make a revision, the auditor's statement on other information should imply a *detailed* explanation. IAASB's Invitation to Comment of June 2012 (Appendix 2, paragraph 2) offered a well balanced template in this respect.

The suggestion to include a disclaimer that the statutory auditor has not given 'a separate opinion on review conclusion' might also add value in terms of avoiding misinterpretation of the works and findings of the statutory auditor.

**Question 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?

The ICGN agrees that an evolved reporting approach and assurance may be the right level at this time. However, it is important to address the needs of investors and the value of additional assurance with the evolution of integrated reporting. We agree that developing an appropriate assurance process over integrated reporting is a significant challenge which the IAASB should consider.

If you would like to discuss any of these points, please do not hesitate to contact Kerrie Waring, the ICGN Acting Head of Secretariat, at +44 207 612 7079 or at [kerrie.waring@icgn.org](mailto:kerrie.waring@icgn.org). Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



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