



International Auditing and Assurance
Standards Board
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The Auditor's Responsibilities Relating to Other Information (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 (ISA 720 revised)*.

FAR's general comments

As in FAR's response to ED ISA 720 in 2013, FAR welcomes increased communication regarding the auditor's responsibilities in relation to *Other Information*. However, it is in FAR's opinion preferable to limit the definition of *Other Information* to information in documents containing the audited financial statements. Hence, the scope of the auditor's responsibility should remain as in the present ISA 720 for two reasons: 1) FAR acknowledges the risk that material misstatements in the *Other Information* may undermine the credibility of the financial statements. However, FAR believes that such risk is more apparent with *Other Information* placed in a document which contains the audited financial statements, and less apparent with *Other Information* placed in separate accompanying documents. 2) The definition of an Annual Report in ED ISA 720 is so vague that FAR believes it will be difficult for both auditors and the users to determine when separately issued documents are within the scope of *Other Information* and when they are not. This problem will not occur if the definition remains as today.

The new section over *Other Information* in the auditor's report is an important improvement to the auditor's communication. However, there are also risks involved that users conceive that more comfort can be obtained from the auditor's involvement regarding *Other Information* than is intended. FAR therefore recommends the IAASB to quite soon after the effective date follow up how ISA 720 (Revised) has been received.

A final general comment is the fact that ISA 720 is an international standard on auditing, even though it does not require anything to be audited. Including ISA 720 in the auditing standards may create confusion among users and may therefore lead to an increased expectation gap. FAR has also considered the title of ISA 720, *The Auditor's Responsibilities Relating to Other Information*, as a possible source for expectation gap. The title may be understood in a way that the auditor has a responsibility for the *Other*



Information as such, when the actual responsibility is limited to reading and considering the *Other Information*.

FAR

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

Bo Hjalmarsson
Chairman FAR Auditing Policy Group

Appendix

The IAASB's Request for Comments on specific and general matters:

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.

FAR's response

In the response to the previous Exposure Draft of ISA 720 in 2013, FAR expressed concerns over an increased scope for the auditor. FAR has noticed that in the re-exposure draft, the IAASB has made some changes and that Other Information is now described as all information in an "Annual report" except for the Audited Financial Statements and the auditor's report when they are included in the Annual Report. In FAR's opinion the definition of *Other Information* in the new ED ISA 720 is in practice not significantly different from the definition in the previous ED ISA 720.

FAR has the following comments.

A. The new term "Annual Report"

The new term "Annual Report" introduces new questions. An Annual report is defined in paragraph 12 (a) as one or more documents which may or may not contain the audited financial statements. If the audited financial statements are not included in the Annual Report, the audited financial statements should be accompanied by the Annual Report. To determine whether certain information issued by management or Those Charged by Governance is Other Information or not, it is necessary to study the definitions in paragraph 12 carefully. However, since this paragraph only provides high level definitions, for example that information in an Annual report is typically prepared annually and has a purpose of providing information to stakeholders on the entity's operations etc., no clear understanding can be obtained from reading the definitions.

An example of the uncertainty about what constitutes *Other Information* is when it is stated in A3 that certain information (Corporate social responsibility reports, Sustainability Reports etc.) will not typically be deemed to be *Other Information* when issued separately, i.e. such information would *é* contrario be considered as *Other Information* when the information is not issued separately, but in the document containing the financial statements. FAR is concerned that users will not understand the reason for treating information differently depending on where it is published.

FAR's opinion is therefore that the auditor's responsibility to read and consider *Other Information* should not go further than to information included in a single document containing the audited financial statements.

B. Other Information accompanying the financial statements

Paragraph 12 (a) defines that the annual report should contain or accompany the financial statements. However, the meaning of accompanying is not clear. FAR is concerned that users may “consume” *Other Information* without being aware of what the auditor’s report communicates about the auditor’s responsibility and findings in respect of the *Other Information*. FAR recommends the IAASB to consider how accompanying *Other Information* should be clearly connected to the financial statements so that the user will take part of auditor’s report thereon and especially the section over *Other Information*.

C. Final version

Paragraph 21 explains that the auditor’s requirements are limited to read *Other Information* that is issued in a “final version” prior to the date of the auditor’s report. The IAASB has not presented a definition of this term which may have the consequence that each auditor interprets the term differently, which may lead to different application of ISA 720 (Revised) in practice.

A47, which clarifies paragraph 21, explains that if the auditor does not obtain any *Other Information* in a final version prior to the date of the auditor’s report, the auditor is not required to include a section regarding *Other Information* in the auditor’s report. FAR believes that the auditor should communicate the reason for not including this section in the auditor’s report, at least if the annual report is a single document containing *Other Information* and the audited financial statements.

Also, FAR believes that ISA 720 should emphasize that the starting point in all audits should be that the auditor receives all *Other Information* in final versions timely and prior to the date of the auditor’s report. Only when laws and regulations raise special requirements for the timing of the publication of *Other Information*, could there be an excuse for why the auditor did not receive the final version prior to the date of the auditor’s report. Paragraph 13 should, in FAR’s opinion, be rephrased to express the importance of receiving the *Other Information* prior to date of the auditor’s report, with a conclusion that the opposite is a failure.

D. Management’s responsibility for the Other Information

In FAR’s response to the previous ED ISA 720 in 2013, FAR suggested that the Management’s responsibility for the *Other Information* should be communicated in the auditor’s report. Presently, only the auditor’s responsibility to read and consider the *Other Information* is stated. In point 40 in the Explanatory memorandum of ED ISA 720, the IAASB explains that such information was considered unnecessary as it was widely understood that management is responsible for the *Other Information*, and that such information would make the section addressing *Other Information* disproportionality long. FAR believes, on the contrary, that since the responsibility for the *Other Information* is normally not determined in the Annual report by signatures or otherwise, it is not necessarily widely known who is responsible for this information. In FAR’s opinion Management’s responsibility for the *Other Information* should therefore be addressed in the auditor’s report. FAR agrees with the IAASB that the section over *Other Information* should not be disproportionality long, and FAR

believes that this responsibility can be described briefly. A short description of management's responsibility could be:

Management is responsible for the preparation of the Other Information.

E. The auditor's responsibility to read the Other Information

A33 raises the situation when *Other Information* contains information beyond the auditor's knowledge and the auditor therefore will be unable to identify material inconsistencies.

Except for the guidance in A33, ED ISA 720 seems to be silent about the fact that users may erroneously believe that auditors are able to determine material inconsistencies in all types of *Other Information*. FAR recommends that the IAASB considers whether this inherent limitation in the auditor's ability to identify material inconsistencies should be addressed in the auditor's report.

F. Other indications that the Other Information is misstated

Paragraph 14 (c) states that the auditor should be alert for "other indications" that the *Other Information* is materially misstated. The paragraph gives a reference to A33. A33 however does not address the matter of "other indications" but instead discusses when matters in the *Other Information* extend beyond the auditor's knowledge obtained during the audit (see G below). FAR recommends the IAASB to add guidance to paragraph 14 (c) by presenting examples of other indications.

G. Information that extends beyond the auditor's knowledge

As discussed in E above, A33 deals with the fact that parts of the *Other Information* may be matters that extend beyond the auditor's knowledge obtained during the audit. FAR regards this as a serious problem and is concerned that ISA 720 only mentions the matter but does not discuss how to deal with it. FAR recommends the IAASB to include a discussion over situations when the auditor has not been able to consider parts of the *Other Information*, for example whether the auditor should scope out those parts of the *Other Information* that deal with matters beyond the auditor's knowledge.

H. Documentation

In paragraph 24 the question of documentation is addressed. The auditor's responsibility related to documentation in this paragraph is to retain the final version of the *Other Information* on which the auditor has performed work under ISA 720. Considering the amount of work the auditor and the team need to perform to meet the requirements in ISA 720, FAR expects that the documentation must include not only the final *Other Information* but also working papers related to work under ISA 720. FAR therefore recommends that the IAASB expands paragraph 24 to also cover working papers.

I. Objectives

Paragraph 11 lists four objectives of the auditors. The two first objectives (a) and (b) regarding identifying material inconsistencies are almost identical with the two first requirements in paragraph 14. FAR suggests a new wording of paragraph 11 to better communicate what are the auditor's objectives:

- (a) To respond appropriately when the auditor identifies that a material inconsistency appears to exist between
- the other information and the financial statements;
 - the other information and the auditor's knowledge obtained during the course of the audit; or
 - when the auditor otherwise becomes aware that other information appears to be materially misstated;
- (b) To report in accordance with this ISA.

J. Reporting

Paragraph 21(d) deals with the statement an auditor shall make in the auditor's report regarding the work under ISA 720. FAR believes that 21(d) needs to be revised in order to better convey the message of the paragraph. FAR suggests the following wording:

- (d) A statement:
- (i) That the auditor has nothing to report, if the auditor has not identified any material misstatement of the other information, or (Ref: Para. A48)
 - (ii) That describes the material misstatement, if the auditor has determined that there is an uncorrected material misstatement of the other information. (Ref: Para. A49)

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

FAR's response

As stated in FAR's response to question 1, an expansion of *Other Information* to documents that are not included in a single document containing the audited financial statements, makes it difficult to determine what documents are in or out the scope of ISA 720. FAR believes that such an expansion will lead to an implementation of ISA 720 (Revised) that is not consistent, which would be very unfortunate.

Paragraph 23 is addressing the fact that in some jurisdictions the auditors already report on the consistency between specific information and the audited financial statements. In FAR's response to the previous ED ISA 720 in 2013, this was exemplified by the Swedish law requiring an auditor to provide a statement over the consistency between a) the

management's report and the financial statements and b) the corporate governance statement and the Financial Statements. Both statements are expressed in the opinion paragraph in a Swedish auditor's report, and not in a separate section as required by ISA 720 (Revised). FAR recommends that the IAASB adds some discussion in ISA 720 over a situation when national law and regulations require that the consistency of some *Other Information* is reported in the Opinion section, and ISA 720 requires that remaining *Other Information* is reported in a separate section covering *Other Information*. The IAASB could consider whether an auditor in this situation should place also the statement over the remaining *Other Information* also in the Opinion section.

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?

FAR's response

The comments made under question 1 above is applicable also regarding whether the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to *Other Information*.

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.

FAR's response

FAR agrees. FAR believes it is important that only *Other Information* obtained prior to the date of the Auditor's report is identified in the auditor's report, reflecting that the auditor has only been able to fully read and consider information in final versions at the date the auditor's report is dated. Even though one may question why the auditor needs to perform work on information that is not identified in the auditor's report, this work is still relevant in order to determine whether the auditor's report needs to be reissued, inform users of material misstatements by other means than the auditor's report etc. as discussed in A43-A45. In FAR's response to question 1 above (C, Final version), there is a discussion with a conclusion that the starting point should be that all *Other Information* has been obtained in final version prior to date of the auditor's report.

Furthermore, FAR recommends that the IAASB should clarify during which period, prior to and after the issuance of the financial statements, information issued by management will be determined to be *Other Information* which the auditor is required to read and consider. ED ISA 720 in 2013 defined *Other Information* in paragraph 9 (c), as being limited to information issued in connection with the initial release of the financial statements. FAR cannot find a corresponding limitation in the present ED.

As a final comment, FAR recommends that the IAASB introduces a discussion over how the auditor's responsibilities to read and consider and act on *Other Information* obtained after the date of the auditor's report under ISA 720 (Revised), corresponds to the auditor's requirements in ISA 560 Subsequent events, regarding facts that become known to the auditor after the date of the auditor's report.

The IAASB's Request for Comments on specific and general matters:

1. *Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)* – The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).

FAR's response

Not applicable. FAR is responding as standard setter.

2. *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISA, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

FAR's response

Not applicable.

3. *Translations* – Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.

FAR's response

FAR has at present no comments regarding translations issues, but will probably encounter issues when the translation work has commenced.

4. *Effective Date* – Recognizing that the proposed ISA results in changes to the auditor's report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB's Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

FAR's response

FAR agrees that 12-15 months is a sufficient period for effective implementation. FAR believes that it is most important that ISA 720 (revised) will have the same effective date as the Auditor's Reporting Project.