



**The Japanese Institute of
Certified Public Accountants**

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July 18, 2014
Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017 USA

Dear Mr. Gunn,

Re: JICPA Response to the Proposed International Standard on Auditing (ISA) 720 (Revised),
The Auditor's Responsibilities Relating to Other Information

The Japanese Institute of Certified Public Accountants (“we”, “our,” and “JICPA”) is grateful for the opportunity to comment on the Proposed International Standard on Auditing, ISA 720 (Revised) - *The Auditor's Responsibilities Relating to Other Information* (“Proposed ISA”).

We laud the IAASB for so thoughtfully deliberating the public comments on Proposed ISA 720 published in 2012 (ED-720(2012)) and choosing to re-expose the proposal for public comment. Compared with ED-720 (2012), we believe that Proposed ISA is considerably more understandable and workable in practice. There are, however, a few remaining points we would like to mention. We present them below.

Auditor's Work Effort

- ***Clarification on “raising the bar”***: One principle holds that the ISA should not require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. To ensure that the readers interpret and apply Proposed ISA in a manner consistent with this principle, we believe that Proposed ISA should clarify which parts correspond to “raising the bar” from the extant ISA 720.
- ***Procedures on information that is prospective in nature***: To avoid unintended consequences, Proposed ISA should clarify that the procedures in paragraph 16 are not expected to be performed on information that is prospective in nature, unless the information clearly contains a material misstatement.

Auditor's Report

- ***Description of Management Responsibilities***: In the interest of stakeholder education, the auditor's report should include a description of the management responsibilities for the preparation of the other information.

- ***The Auditor’s Responsibilities Regarding Other Information Obtained after the Date of the Auditor’s Report:*** Now that the definition of the “other information” has expanded and the statement on other information is included in the auditor’s report, the IAASB should reconsider the propriety of the auditor’s responsibility regarding other information obtained after the date of the auditor’s report.

Below we present our detailed comments to the questions in the Explanatory Memorandum, along with other significant comments in general. Later, in the Appendix, we comment on specific paragraphs of Proposed ISA.

Sincerely yours,

Sayaka Sumida
Executive Board Member - Auditing Standards
The Japanese Institute of Certified Public Accountants

Comments to the Questions in the Explanatory Memorandum and Other Significant Comments

Comments to the Questions in the Explanatory Memorandum

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

We believe that the proposals in the ISA cannot be consistently interpreted and applied. Specifically, there seem to be inconsistencies between the descriptions of the auditor's work efforts in the Introduction, and in the Requirements and Application and Other Explanatory Material.

Paragraph 2 of Proposed ISA states "...nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements." We strongly agree with this point. Although we recognize that the purpose of the revision is to "raise the bar" from the extant ISA 720, the auditor's work in accordance with ISA 720 should be in the context of the financial statement audit. We believe that this should be the foundation of the revised ISA 720, as well.

Yet several passages on the requirements and application and other explanatory material give us the impression that Proposed ISA requires the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. For example:

Comparison with the requirements in the extant ISA 720

The extant ISA 720 prescribes that if on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an *apparent* material misstatement of fact, the auditor is required to discuss the matter with management (paragraph 14 of the extant ISA 720). In contrast, Proposed ISA prescribes that if the auditor identifies that a material inconsistency *appears to exist* or becomes aware of other information that *appears to be materially misstated*, the auditor is required to apply paragraph 16.

On this point, we recognize that the term "apparent" generally has the following two meanings:

- (i) clearly visible or understood; obvious
- (ii) seeming real or true, but not necessarily so

We have interpreted that the extant ISA 720 uses the term "apparent" in the sense of (i) above (i.e., "obvious"). We believe that this interpretation is the general understanding in practice, and also appropriate in the context of ISA 720. The term "apparent" in the extant ISAS 720 is only used for "misstatement of fact", i.e. "other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented". Therefore, we believe that the use of "apparent" is intended to clarify the threshold for triggering the auditor's response for a "material misstatement of fact" as opposed to a "material inconsistency."

However, the phrase "appears to" in Proposed ISA seems to be taken the meaning of (ii) above,

which gives the impression that Proposed ISA significantly lowers the threshold for triggering a response by the auditor. This interpretation is exacerbated by the change from the terms “material inconsistency” and “material misstatement of fact” in the extant ISA to the term “material misstatement of the other information” in Proposed ISA. A “material misstatement of the other information” is analogous to a “material misstatement of the financial statements,” the term is used for the financial statements in the context of audits, and gives the impression that Proposed ISA requires assurance procedures of some kind. The Explanatory Memorandum does not include any explanation regarding the change of the phrases “apparent/appear to.” We therefore believe that the intent behind this change from the extant ISA 720 is unclear to readers.

Descriptions in the application and explanatory material

The nature and extent of the procedures expected to be performed in accordance with paragraphs 14(b), 14(c), and 16 are unclear from the guidance in the relevant application and explanatory material. For example:

- Paragraph A29 states that “the auditor’s knowledge obtained during the course of the audit may also include matters that are prospective in nature.” Yet the paragraph fails to clearly describe the types of procedures the auditor is expected to perform on these matters.
- Paragraph A33 states that “other information may include discussion of matters that extends beyond the auditor’s knowledge obtained during the course of the audit”. Yet there are no descriptions of what the auditor must do to comply with paragraph 14(c).
- Paragraph A38 offers “consulting with a qualified third party” as an example of the auditor’s response when the auditor is unable to assess the validity of the management’s statements in the other information. The paragraph seems to imply that this is a procedure typically performed in these circumstances. We suspect, however, that an auditor who performs this procedure on the other information will end up obtaining audit evidence beyond that required to form an opinion on the financial statements.

Our Suggestions

Judging from the change of requirements from the extant ISA 720 and the contents of the application and other explanatory material, Proposed ISA seems to require the auditor to obtain audit evidence beyond that necessary to form an opinion on the financial statements. We would like to propose two possible solutions for this concern:

(1) Clarification regarding the enhancements

We encourage the IAASB to clarify which parts correspond to “raising the bar” from the extant ISA. For example, we understand that paragraph 14(b) is “informed-reading” and intended to serve as an instance of “raising the bar” from the extant ISA. Yet paragraph A33 in Proposed ISA and paragraph 25 in the Explanatory Memorandum offer no clear descriptions of what the auditor is expected to do regarding paragraph 14(c). If the IAASB has no intention to enhance the auditor’s work effort on paragraph 14(c) from the extant ISA, we believe Proposed ISA should state so clearly. We therefore propose the following addition to paragraph A33:

“A33. Other information may include discussion of matters that extends beyond the auditor’s knowledge obtained during the course of the audit. For example, the other information may include statements about the entity’s greenhouse gas emissions when that information is unrelated to the financial statements or to the auditor’s knowledge obtained during the course of the audit. Although paragraph 14(c) requires the auditor to remain alert for other indications that the other information appears to be materially misstated, the auditor is not required to obtain audit evidence beyond that required to form an opinion on the financial statements.”

(2) Clarification regarding the procedures on information that is prospective in nature

We believe clarification is necessary regarding the nature and extent of the procedures the auditor is expected to perform on information that is prospective in nature. Even if an auditor obtains knowledge relevant to the information that is prospective in nature during the course of an audit, the validity of that information is often difficult to determine. Preparation criteria may not exist for information other than the financial statements, and the entity prepares the information based on its subjective judgments. If there is no clear guidance in the standard on the nature and extent of the procedures expected to be performed, the auditor, from the perspective of the independent auditor on the financial statements as historical information, is likely to focus on the objectivity of the prospective information. Yet in some cases, the value of information in an annual report apart from the financial statements themselves may lie in their subjectivity. We are therefore concerned that the auditor's work in accordance with the ISA may inadvertently impede the relevance of the information to the users of the financial statements.

Therefore, in order to ensure the consistent interpretation and application, and to avoid the inadvertent consequences above, we believe that the application and other explanatory material relevant to paragraph 16 should clarify that paragraph 16 is only expected to apply to information of a prospective nature when the existence of a material misstatement in such prospective information is obvious. Note, also, that paragraph A29 provides no beneficial guidance. For this reason, we think it should be deleted.

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.
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We believe that the statement on other information in the auditor's report should reference management's responsibilities for the preparation of the other information. Paragraph 40 of Explanatory Memorandum explains that such a statement was unnecessary, as the other information is widely understood to be the responsibility of management. We disagree, however, with this point. If using the same logic, the auditor's reports include descriptions of the management's responsibilities for the preparation of the financial statements on the grounds that management is not widely understood to be responsible for the financial statements. To communicate the auditor's work on the other information to the users appropriately, we believe that the auditor's report should refer to the responsibilities of both management and the auditor on the other information, like it refers to the responsibilities for the financial statements. Further, clear explanations on the responsibilities of both management and the auditor in the auditor's report are also important from the viewpoint of stakeholder education, given that statement on the other information will be newly added to the auditor's report. We believe this explanation will bring value beyond the more standardized language in the auditor's report, especially during the early stage of implementation.

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.

We recognize that the auditor's responsibility to read other information obtained after the date of the auditor's report has not been changed from the extant ISA. However, we question the rationale for this responsibility. We also are concerned, in light of the expanded definition of other information and the inclusion of the statement on other information in the auditor's report,

various issues relevant to this responsibility may come to the surface. We urge the IAASB to reconsider whether it is appropriate to make the auditor responsible for other information obtained after the date of the auditor's report.

If, for example, management is able to confirm that he or she will develop the document that will comprise an annual report and will provide it to the auditor within 3 months after the date of the auditor's report, Proposed ISA states that the auditor will be required to read and consider the document when the auditor receives it (see paragraph A14 of Proposed ISA). The other information itself is outside the scope of the audit, and we cannot find a rationale for making it the responsibility of the auditor. In addition to the implication on the auditor's report, this responsibility also raises various theoretical and practical issues, such as the following:

- **The concept of sufficient appropriate audit evidence:** As ISA 720 stands, "reading and considering other information after the date of the auditor's report" is not considered to be non-compliant with the following requirement from paragraph 41 of ISA 700: "the auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements." Why isn't this considered out of compliance?
- **The relationship with the completion of the assembly of the final audit files:** We believe further consideration is necessary as to how the documentation of the other information obtained after the date of the auditor's report (paragraph 24 of Proposed ISA) fits in with the completion of the assembly of the final audit files (paragraph 45 of ISQC 1). Paragraph 13 of ISA 230 deals with the matters arising after the date of the auditor's report; this requirement is to be applied "in exceptional circumstances,...". However, Proposed ISA does not state that the obtainment of other information after the date of the auditor's report qualifies as an "exceptional circumstance."

If the IAASB does believe that an auditor should be responsible for reading and considering other information obtained after the date of the auditor's report, Proposed ISA should at least clarify that the auditor usually obtains the other information before the date of the auditor's report and that obtainment after the date of the report is an exception. Proposed ISA describes the requirements under both situations in parallel (paragraphs 18 and 19 of Proposed ISA). We believe that auditors should be encouraged to obtain the other information before the date of the auditor's report.

Other Comment

When the other information is amended after the date of the auditor's report

There is no clear guidance in Proposed ISA for cases where a fact requiring amendment of the other information becomes known to the auditor after the annual report and auditor's report have been issued. Likewise for cases where the management amends other information after the issuance of the annual report and auditor's report. According to the Explanatory Memorandum, ISA 560 deals with circumstances when other information may bring to light subsequent events related to the financial statements. Yet subsequent events related to the other information are not described in either Proposed ISA or ISA 560. We understand that it is difficult for the IAASB to establish specific treatment regarding this issue globally, just as it is difficult to establish a treatment for other information obtained after the date of the auditor's report. We nonetheless believe that some discussion on this issue is called for, given that the statement on other information is to be included in the auditor's report.

Comments on Specific Paragraphs of Proposed ISA

(Paragraph 12(a))

The latter part of the second sentence (i.e., after “and usually...”) merely refers to examples that are typically included in an annual report. Also, the third sentence is redundant with paragraph A1, and is therefore unnecessary. We propose the following revision:

“Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, for the purpose of providing owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon ~~and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters. The content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions.~~”

(Paragraph A1, the third sentence)

We propose the following revision, as the second sentence already describes the situation where an annual report is a single document:

“...In some cases, an entity’s annual report may be a single document and referred to by the title “annual report” or by some other title. In other cases, a law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (i.e., an annual report) ~~by way of a single document, or~~ by way of two or more separate documents that in combination serve the same purpose...”

(Paragraph A3, the first sentence)

The first sentence, which explains that a report prepared to meet the information needs of a specific stakeholder group, or a report prepared to comply with a specific regulatory reporting objective, is not an annual report, seems to imply that the application of ISA 720 is unnecessary for audits of the special purpose financial statements. We recommend that the IAASB clarify the actual intent of this sentence for consistent interpretation.

(Paragraph A8 the last sentence)

The last sentence uses the term “intended audience,” while the other paragraphs (e.g. paragraphs 12(b) and A2) use “user.” The term “intended user” is defined in the glossary as “the person, persons or class of persons for whom the practitioner prepares the assurance report.” To avoid translation issues, we encourage the IAASB to use other terms.