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JICPA Comments 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*

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 in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (“Proposed ISA”).

Based on our review, we have the following comments:

Request for Specific Comments

Scope of the Proposed ISA

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?

(Comment)

In order to enhance the value of the audit, we agree that there is a need to strengthen the auditor's responsibilities with respect to other information under ISAs without widening the scope of the audit. As stated in Explanatory Memorandum, entities have been making increasing and more diverse use

of various documents, and there has been an evolution in the manner in which an entity disseminates information. Also, there has been a change in the nature of information included in the other information. We believe that these trends will continue and, therefore, consideration regarding the auditor's involvement in other information is critically important.

However, in our view, by changing the objectives and the definition of "inconsistency in the other information", the Proposed ISA would expand the auditor's responsibility beyond the current scope of the audit, and the work effort required, in effect, providing some level of assurance on other information. We believe that such expansion of the auditor's responsibility with respect to other information as part of the financial statement audit within ISAs is not appropriate. This is because the disclosure requirements for the entities regarding other information, and the level of expectation regarding the auditor involvement in other information, vary depending on the circumstances, including relevant laws or regulations in respective jurisdictions. We believe that to require the auditor to have such responsibility under ISAs, depending on the laws or regulation, or customs in respective jurisdiction, would not only be inappropriate in terms of costs and benefits consideration, but also expand the expectation gap, which would not be in the public interest.

Therefore, we do not agree with the proposed objectives and the definition of an "inconsistency in the other information". The auditor's responsibilities with respect to "inconsistency" and "misstatement of fact" defined in the current ISA 720 should be differentiated in revised ISA 720 as well, since "misstatement of fact" in the other information does not directly relate to the financial statements which are the scope of the audit. We believe that if the assurance is being provided on the other information, such engagement should be treated as a separate assurance engagement that would be additional to the financial statement audit. That is, it would be applicable when required by law or regulation, or when the auditor would voluntarily engage to perform such an engagement. In our view, this approach will facilitate the auditor's involvement in the other information, aligned with the development of relevant laws or regulation or customs on the other information in respective jurisdictions (please see our comments on questions 5 to 7 for more details).

Scope of the Proposed ISA

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| <ol style="list-style-type: none">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?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? |
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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?

(Comments on questions 2 and 3)

As stated in Explanatory Memorandum in the Proposed ISA, there is diversity in the way that entities disclose the information, and there are documents, other than the annual reports, that are issued as a set of documents with audited financial statements and the auditor's report. These documents may affect the credibility of audited financial statements and the auditor's report as well. Therefore, we agree to include the documents that accompany the audited financial statements and the auditor's report in the scope of ISA 720. Also, we agree that it is not appropriate to restrict the documents that are within the scope of ISA 720 to those that are issued on the specific date.

However, we believe that the determination as to whether a certain document is an "accompanying document" within the scope of ISA 720 in accordance with the relevant provisions including Para. 9(b), Para. 9(c)(ii), Para. A4 and A5 in the Proposed ISA, can be complicated. For example, when there is a time lag between the date that the financial statements are filed with the regulatory authority and the date of the annual shareholder meeting, there may be various interpretations as to which documents are issued "in connection with the initial release", and are within the scope of the Proposed ISA, as for following reasons:

- "...has a primary purpose of providing commentary to enhance the user's understanding of the audited financial statements or the financial reporting process" (Para. 9(c)(ii))
Para. A12 and A13 describe the examples of accompanying documents that would be within or outside the scope of the Proposed ISA. However, especially in cases of voluntary disclosure, an entity may prepare documents that include various types of information, and the name of the document may also vary. As a result, whether the document has a primary purpose of providing commentary to enhance the user's understanding of the audited financial statements or the financial reporting process may become a matter of subjective judgment.
- "...established custom or practice" (Para. A5(a))
Whether the document is released pursuant to "established custom or practice" may become a matter of subjective judgment.

In order to deal with these issues, we propose to:

- *Add guidance in Application and Other Explanatory Material that explains that "In some*

jurisdictions, the auditing standard may provide guidance regarding the documents that typically are within the scope of ISA 720”.

Which documents are within the scope of ISA 720 should be determined in light of the financial reporting system in respective jurisdiction, and that determination should be consistent in practice within that jurisdiction. We believe that if the respective national auditing standard setters can provide guidance regarding the typical documents that are within Para A5(a), such guidance will assist in achieving consistency in practice.

- *Change Para. 10 (a) to “Discuss with management the nature and timing of the documents that are expected to be issued in connection with the initial release and agreed~~determine~~ which of them are within the scope of this ISA”. In addition, requiring the agreed terms of the audit engagement to include the agreement regarding the documents that are within the scope of ISA 720.*

Based on the Proposed ISA, the auditor’s report includes identification of the specific documents that contain the other information that is within the scope of ISA 720, and statement addressing whether the auditor has identified material inconsistencies in the other information. Therefore, we believe that there should be explicit agreement beforehand with management regarding the documents that are within the scope of ISA 720, and the agreement should be included in the terms of the engagement.

We believe these proposals will assist in achieving consistency in practice regarding the scope of ISA within the jurisdiction, and will clarify with management the extent of the work of the auditor on other information. In addition, inclusion of the identification of the specific document that is within the scope of the auditor’s work in the auditor’s report would bring transparency to users.

(Comment on question 4)

We agree that securities offering documents should be included within the scope of ISA 720 if these meet the criteria specified in Para. 9(c). However, we believe that provisions relevant to the securities offering documents are ambiguous for following reasons.

- Para. 1 states that “This ISA deals with the auditor’s responsibilities relating to other information that is included in documents within the scope of this ISA as defined in paragraph 9(c)”. However, Para. 3(b) states that “This ISA does not apply to Securities offering documents, including prospectuses, unless such documents meet the criteria specified in paragraph 9(c) for documents within the scope of this ISA”. We believe that Para. 3(b) is unnecessary since Para. 1 already covers the same message.
- Para. A1 states that “securities offering document is not precluded from being in the scope of this ISA if it meets all the other criteria specified in paragraph 9(c) for documents that are within the scope of this ISA.” We interpret Para. 1 and 3 that the securities offering document

would be, the same as other documents, within the scope of ISA 720 if it meets the criteria in paragraph 9(c). However, Para. A1 can be interpreted to mean that Securities offering documents are, in principle, outside the scope of the ISA, but can be within the scope of the ISA if it meets the criteria in Paragraph 9(c).

Therefore, in order to avoid possible confusion, we believe that Para. 3(b) and A1 should be deleted. Whether certain securities offering document is within the scope of the ISA should be determined based on the criteria in Para. 9(c) in light of the financial reporting system in respective jurisdictions and, therefore, the guidance that is specific to securities offering documents is not necessary.

The Objectives and the definition of an Inconsistency in the Other Information

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?
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?
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?

(Comments on questions 5 to 7)

We do not believe that the objectives of the Proposed ISA and the definitions of the terms “inconsistency” and “a material inconsistency” in the other information are appropriate. We believe that ISA 720 should be revised without changing the scope of the audit. In our view, the Proposed ISA is clearly expanding the auditor’s responsibility beyond the current scope of the audit by changing the objectives and the definition of the material inconsistency, and the work effort required would, in effect, provide some level of assurance on the other information.

This type of work should be treated as an assurance engagement on the other information that is separated from and additional to the financial statement audit, rather than within ISAs. We believe

that the approach in the Proposed ISA could mislead the users' understanding regarding what the audit means, and result in expansion of the expectation gap, which is not in the public interest.

Followings are our reasons:

- There is no linkage in the definition of “inconsistency in the other information” in Para. 9(a) to the financial statements which are the scope of the audit. Also, the definition implies that the “inconsistency” relates to inaccuracies in the information itself, rather than the comparison between the information (i.e. the comparison between the other information and the financial statements). We believe that requiring the auditor to consider the inaccuracy of the other information is beyond the scope of the audit. Especially, there are cases where management does not have suitable criteria to prepare the other information. In these cases it is difficult for the auditor to determine whether there is inconsistency regarding Para. 9(a)(ii) (when the other information is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information). In addition, since there is no linkage between the definition of Para. 9(a) and the meaning of the term “inconsistency”, we believe that it is difficult for the users of the auditor’s report to understand what the “inconsistency in the other information” actually means.
- Para. 9(a) explains that “inconsistency in the other information is material if it 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”. Also, Para. A36 describes that one of the factors that assist the auditor to judge in focusing the auditor’s consideration of the other information is “whether the other information contains information of which the auditor was not previously aware but that the auditor would have expected to have known about during the audit” (4th bullet in Para. A36). These imply that, subsequently, the auditor could assume some liability due to not obtaining during the audit an understanding regarding matters related to the other information. We believe this is not appropriate, since the other information is not within the scope of the audit.
- We believe that the auditor’s responsibility regarding the current concept of “misstatement of fact” in ISA 720, which is unrelated to matters appearing in the audited financial statements, should be derived from Para. 110.2 of the IESBA Code of Ethics for Professional Accountants. In the auditing standard, the concept of “misstatement of fact” and “inconsistency” should be distinguished in light of the respective auditor’s responsibilities. Therefore, we believe it is not appropriate to subsume the current concept of “misstatement of fact” into “inconsistency”, and apply the same concept of materiality.
- The other information is, in some cases, prepared by management in accordance with suitable criteria (e.g. when the disclosure of that information is mandated by law), but in other cases, it is prepared by management without suitable criteria (especially disclosed voluntarily). In the

latter cases, it is difficult for the auditor to determine whether or not the other information is accurate, or would have influence on the economic decision of the users. The nature of the information included in the other information, and the level of expectation regarding the auditor's involvement in such information, vary depending on the circumstances, including relevant financial reporting requirements in respective jurisdictions. Therefore, we believe that requiring the auditor to assume responsibility described in the Proposed ISA under the ISAs is not appropriate.

- The objectives of the Proposed ISA imply that the auditor should determine whether there is material inconsistency, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. Following this objectives, Para. 11 and relevant application materials (Para. A36, A41 and A42) in the Proposed ISA explains that "the auditor's understanding of the entity and its environment acquired during the course of the audit" is the benchmark when the auditor determines the work effort in reading and considering the other information, and in identifying the material inconsistency. In addition, Para. 12 states that "if, based on reading and considering the other information, the auditor identifies that there may be a material inconsistency in the other information, the auditor shall discuss the matter with management, and, if necessary, perform other procedures to determine whether a material inconsistency in the other information does exist." However, within the extent necessary to express the auditor's opinion, the nature and extent of the auditor's understanding of the entity and its environment acquired during the audit varies depending on the audit approach (e.g. whether the auditor adopts more substantive approach). Therefore, based on the approach in the Proposed ISA, if the auditor is having a broader and more thorough understanding of the entity and its environment during the course of the audit, due to the increased auditor's understanding relevant to the other information, more work effort may be necessary when the auditor "reads and considers" the other information. In addition, the auditor may identify a "material inconsistency" that the auditor would not find if the auditor did have less understanding of the other information. In other words, with a higher degree of auditor's understanding of the entity and its environment, more work effort may be necessary related to the other information, and there may be more findings from the auditor's work. In contrast, with a lesser degrees of auditor's understanding, there may be less work effort and finding on the other information. Moreover, the users would not understand that the quality of the auditor's work on the other information would vary depending on the level of the auditor's understandings. We believe this would contribute to the expansion of the expectation gap.

Nature and Extent of Work Effort

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

(Comment on question 8)

The other information includes various types of information. Therefore, we agree that the principle-based approach is appropriate. However, in the Proposed ISA, although paragraph 10 only stipulates "read and consider" the other information, relevant "Application and Other Explanatory Material" explains detailed procedures that are beyond just reading and considering the other information. In addition, as stated in our comment on questions 5 to 7 above, the objectives and the definition of the material inconsistency in the other information in the Proposed ISA are changed that are beyond the scope of the audit. As a result, when reading the Proposed ISA as a whole, we believe that the work effort would extend the scope of the audit that would otherwise be necessary for the auditor to express an opinion on the financial statements. This is especially true for Para. A37(d) (remaining other information), which does not relate to the financial statements. In addition, since detailed procedures, including the auditor's response when the auditor identifies that there may be a material inconsistency in the other information, are only explained in "Application and Other Explanatory Material", there is ambiguity as to what level of work efforts is actually required by the auditor, and this could cause diversity in practice.

As stated in our comments on Question 2 and 5 to 7 above, we believe that the IAASB should reconsider the objectives and the definition of "inconsistency in other information" and, on that basis, "Requirement" and "Application and Other Explanatory Material" relevant to work effort should also be reconsidered.

(Comment on question 9)

We believe the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful.

Responding When the Auditor Identifies That the Audited Financial Statements May Be Materially Misstated

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?

(Comment on question 10)

We believe that the auditor’s response is clear as stated.

Reporting

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?

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?

(Comment on question 11(a))

As stated in our comment on questions 5 to 7, there is no linkage between the definition of “material inconsistencies” and the meaning of the term “inconsistency”, and therefore, we believe it is not clear and understandable for users of the auditor’s report.

(Comment on questions 11(b) and 12)

We believe that the statement “auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it” does not properly convey that there is no assurance being expressed with respect to the other information. The terms “audit” and “review”, with the meaning of IAASB pronouncements, are used for assurance engagements regarding historical financial information¹, while “other information” includes information other than historical financial information. Therefore, we believe that the auditor’s report should state that “the auditor does not express any assurance conclusion on the other

¹ International Framework for Assurance Engagements, Footnote 2

information.” However, as stated in our comment on questions 5 to 7, by changing the objectives and the definition of the material inconsistencies, the auditor’s work effort and the report based on the Proposed ISA in effect provides some level of assurance on the other information to the users.

In this context, from questions 11(b) and 12, we understand that the IAASB is aiming to distinguish the concept of the “expression of the assurance” from the “assurance being provided to the users”. However, this approach would change the definition of the term “assurance”, which is a fundamental concept in the auditing and assurance standards. We believe that this change is not appropriate as this could lead to confusion of the stakeholders including practitioners. We believe that revision of ISA 720 should be made on the premise that the auditor does not express assurance on the other information, nor there is assurance being provided with respect to other information. If the assurance is being provided with respect to other information, such engagement should be treated as separate assurance engagement on the other information

Other Comments

- Paragraph 13(a)

We propose the following revision:

“13. If the auditor determines that a material inconsistency in the other information does exist, the auditor shall request management to correct the other information. If management:

(a) Agrees to make the correction, the auditor shall determine whether~~that~~ the correction has been made; or...”

- Paragraph 18

We understand that paragraph 18 is based on paragraph 43 in current ISA 700, and agree with the concept. However, if the Proposed ISA includes paragraph 18 in addition to paragraph 43 in ISA 700, it seems that the auditor can assert in the auditor’s report that he/she is in compliance with ISA 700 but not with ISA 720. While we believe that the IAASB intends to deal with this issue in the auditor’s reporting project, we believe such provision should be dealt only within ISA 700, and not in the other individual reporting standard.

- Paragraph A5

We believe the following should be stated in paragraph 9(b), not in Application and other Explanatory Material, since it provides the definition of the “initial release”

“Documents that are issued after the initial release are only treated as issued in connection with the initial release if the other information contained in them addresses the same reporting period as the audited financial statements, and:

- (a) The documents are released pursuant to law or regulation, or established custom or practice; or
- (b) The documents were otherwise identified in the discussion with management required by paragraph 10(a) as being expected to be within the scope of this ISA.”

- Footnote 15

Although Footnote 15 refers to the definition of “significance” in the Glossary of Terms, such reference is unnecessary and should be deleted.

- Paragraph A62

As stated in Para. A41, it is not expected that the auditor will have an understanding of all the other information. Also, the auditor has not audited or reviewed the other information. Accordingly, whether there is limitation of scope that results in the qualified opinion should not be related to the auditor’s responsibility regarding other information. Therefore, we believe Para. A62 should be deleted.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants