

Russian Collegium of auditors (RCA) has organized the discussion of International Standard on Auditing (ISA) 720 (Revised) Exposure Draft within the community of Russian auditors and experts of CIS countries by translating the Draft and posting it on RCA site. Letters with information were sent to the executives of Russian Self-regulatory organizations of auditors.

Hereby we summarize the most repeated and popular comments made by our experts.

Request for Specific Comments

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?

Experts of the Russian Collegium of auditors expressed two different opinions:

- Yes, extending the auditor's responsibilities with respect to the other information is necessary, first of all, because of the growing quantity of the other information; and also because part of this information reflects those management decisions, which the management of the entity is going to realize. Extending the auditor's responsibilities with respect to other information is in public interests, but it would substantially increase the auditor's expenses, which should be explained to the audited entity and to be reimbursed by this entity, so the costs of audit in whole would increase.

- No (without explanation) – minority.

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?

- Yes, we agree, that broadening the scope of the proposed ISA 720 to include documents that accompany the audited financial statements and the auditor's report is appropriate.
- No (without explanation) – minority.

3. Do respondents find 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?

- Some of experts think it is necessary to make the definition of initial release more distinct and traditional, in particular:
«Initial release» - is release of the financial statements, confirmed by the auditor's report, and is made available to all the users, first of all to whom the auditor's report is addressed, but not for single users, by whose demand (legislative, contractual, etc.) the financial reports was provided.

It reference to the statement that initial release may be different from the date the financial statements are issued as defined in ISA 560 – it is not completely clear and corresponding to the definition, because par.14 (b) of ISA 720 draft concerns not the initial release of annual financial statement, but the other information, accompanying the statement and later - financial statement itself.

- We believe it would be reasonable after 3 bullets in paragraph A4 to give an example, how the filing the documents to the regulating authority or securities exchange could make the audited financial statements generally available.
Such an example could define the difference between the “initial release” and the “date the financial statements are issued”.

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?

- Yes, we agree, that under the defined circumstances a securities offering document would be in scope of ISA 720.
- Some of respondents disagree.

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?

- Yes

(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?

- Yes

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 think that the definition of terms of “inconsistency” is very subjective and could be applied differently by different auditors. The impossibility to define “a material inconsistency” clearer should be compensated by giving examples in paragraph A2.

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 auditors understanding of the entity and its environment acquired during the course of the audit?

- Yes, if auditor could point which part of the other information precisely and which inaccuracy precisely it contains.

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 principle-based approach for determining the extent of work of auditor is expected to undertake when reading and considering the other information is appropriate

- Agree
- Some of respondents disagree

(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?

- Agree
- Some of respondents disagree

(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?

- Agree
- Some of respondents disagree

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

- Yes, they are helpful, especially if the quality and the quantity would be extended.

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?

- Yes, we agree

11. With respect to reporting:

(a) Do respondents believe that the terminology (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?

- We believe that this terminology would be more clear and understandable for users of financial statement and auditor's report if the users would be acquainted with it. But such a requirement is not included to national legislation of all the jurisdictions. For example, due to the legislation of Russia the audited entity is not obliged to respond the demands of ISAs and therefore to know their content.
- There is also an offer to include the definition «reading and considering» to paragraph 9, it would clear to users the responsibility of auditor concerning the other information when they begin to study ISAs.

(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?

- No. That is why the phrase which is mentioned could be added to the conclusion.
- Some of experts disagree.

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?

- Yes, the other type of engagement (review engagement, related services) couldn't provide such a level, as they are not mandatory for audited entity.
- No, it is difficult to confirm as we don't know the content of other information.