



**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***

RESPONSE FROM ICAS TO THE IAASB

14 March 2013

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0236 Email: aadrain@icas.org.uk

Background

1. ICAS welcomes the opportunity to comment on the IAASB's exposure draft of 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*. Our CA qualification is internationally recognised and respected. We are a professional body for over 19,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.
2. Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

ICAS is supportive of the IAASB's objective to extend the scope of the revised standard to include documents containing or accompanying the audited financial statements and the enhanced responsibilities of auditors to read and consider these documents for consistency with the auditor's understanding of the entity acquired during the course of the audit. We believe that the increase in scope and responsibilities is in the public interest and welcome the proposed changes to the auditor's role in relation to this other information. We do not however believe that the current proposals go far enough but rather that the introduction of a requirement for an auditor to have to issue an opinion would send a stronger behavioural message to the party who is required to report.

In December 2010, the ICAS Future of Assurance Working Group¹ published its recommendations for improvements to the external auditor's reporting process. One of these recommendations proposed that the narrative section of an organisation's annual report, be subject to a new positive opinion, whereby the external auditor would provide assurance that the 'story' presented in the organisation's annual report is 'Balanced and Reasonable'.

The ICAS 'Future of Assurance' report can be downloaded at: <http://icas.org.uk/futureofassurance/>

Recently, ICAS has been developing a discussion paper which will suggest how auditors might provide such an opinion. The draft paper is expected to be issued in the Spring of 2013 with the aim of launching a debate on the provision of assurance on management commentary. We would welcome your comments and feedback on some of the questions that the paper poses and your participation at some of the Roundtable discussions we intend to host later in 2013.

Our responses to the specific consultation questions

Scope of the proposed ISA

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?

¹ 'The Future of Assurance' by The Institute of Chartered Accountants of Scotland (ICAS) December 2010

Response 1

We agree that there is a need to strengthen the auditor's responsibilities with respect to other information to provide greater clarity to on the extent of those responsibilities over such information. As a result, we believe that the enhanced responsibilities are in the public interest and that the benefits will outweigh any additional costs.

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?

Response 2

We agree that broadening the scope of the proposed ISA is appropriate i.e. to include those documents that accompany the audited financial statements and the resulting auditor's report. Supporting and supplementary information, which might include an extract of the financial statements, or reference to the financial performance, is regularly issued to stakeholders who may not currently be aware of either the extent of the responsibilities of the auditor in relation to this information, or indeed what supplementary information the auditor has had sight of. Furthermore, the increased development and capacity of technology, resulting in companies making greater use of electronic communications, may cause confusion and uncertainty over what information has or has not been considered, as currently, there is no reference made by the auditor to such information in his/her report.

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?

Response 3

Although we find the concept of initial release understandable, we do not understand the reason behind, or the need for, the proposed change in definition from the date on which the financial statements are issued as per ISA 560.

Question 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?

Response 4

We believe that where the primary purpose of securities offering documents it is to enhance users' understanding of the financial statements, then these should be included within the requirements of the proposed ISA. Otherwise, the auditor's responsibilities in relation to such securities documents should come under other national regulatory requirements and legislation.

Objectives

Question 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?

Response 5

(a) Although the meaning of the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable, we believe that the wording should be amended to “in light of the auditor’s understanding of the entity and its environment acquired during **the performance of the audit**” to emphasise that only information that the auditor has acquired as a result of undertaking the audit requires to be considered and the responsibility does not extend as far other information, outside of the audit work itself, to which the auditor is party. This amendment will ensure consistency with the current ISA (UK & Ireland) 720 Section A - Revised.

We agree that it is clear from the guidance what it means for the auditor to ‘read and consider’ the other information, however, we do not believe that the extent of the additional work undertaken on other information is made sufficiently clear to users within the current guidance. The proposed statement in the auditor’s report does not provide any further clarification by adding that the auditor has not ‘reviewed’ this information. Without clear definitions of the terms ‘read and consider’ and ‘review’, it may be difficult for users to ascertain the value of the additional work performed by the auditor and whether it meets their requirements, thereby potentially increasing the expectations gap. We suggest that a clear explanation of the scope and extent of the additional responsibilities of the auditor to ‘read and consider’ other information is included within the illustrative statement along with definitions of, and an illustration of the differences between, the terms ‘read and consider’ and ‘review’.

(b) We agree that the revised ISA makes it clear that the auditor’s responsibilities include reading and considering the other information for consistency with the financial statements but would draw attention to the points raised in our response to question 5(a) above in relation to the scope of the new responsibilities of the auditor and the use of the terms ‘read and consider’ and ‘review’.

Definition of an inconsistency in the other information

Question 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?

Response 6

We agree that the definitions of the terms, “inconsistency” which includes the concept of omissions and “a material inconsistency in the other information” are appropriate and sufficient.

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?

Response 7

We believe that users of auditors’ reports may not fully understand the definition of an ‘inconsistency’ in other information as a result of the reference to ‘inappropriate’ information in definition (a). It is not clear as to the type of information or disclosure that would be considered ‘inappropriate’ and we would suggest substituting the ‘irrelevant’ for ‘inappropriate’ for clarification of the definition of an inconsistency in other information.

Nature and extent of work effort

Question 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?*

Response 8

- (a) We agree with a principles-based approach for determining the extent of work required to be undertaken by the auditor as this will reinforce the need to exercise professional judgement over certain disclosures and information and place less emphasis on simply 'ticking boxes', which is a common consequence of a prescriptive approach.
- (b) We believe that the categories of information included in paragraph A37, and the guidance on the nature and extent of the work required, for each, are sufficiently clear and appropriate.
- (c) We agree that the work effort will be undertaken at the expected level and will not extend the scope beyond that necessary for an auditor to express an opinion on the financial statements if the opinion is modified to state that "*in light of the auditor's understanding of the entity and its environment acquired during **the performance of the audit***" for the reasons referred to in our response to question 5 (a) above.

Question 9

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

Response 9

We believe that the examples of qualitative and quantitative information in the Appendix to the proposed ISA are helpful and represent a useful reference point when contemplating the nature of information that should be classified as other information.

Responding when the auditor identifies that the audited financial statements may be materially misstated

Question 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?

Response 10

We believe that that the guidance in the proposed ISA makes it clear what the auditor's response should be if the auditor discovers that his/her prior understanding of the entity and its environment acquired during the audit was incomplete or incorrect. The inclusion, within the proposed ISA, of other relevant ISAs, to which the auditor should refer when faced with such situations, is helpful.

Reporting

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?

Response 11

(a) As mentioned in our earlier response to question 5(a), we do not believe that the terms ‘read and consider’ make it clear to users what level of assurance is being provided on the other information. This lack of clarity may increase the expectations gap as the user may anticipate greater assurance on this information than the auditor is required or able to provide. It is also questionable whether these additional responsibilities go far enough in meeting users’ expectations as they fall short of the provision of a positive opinion on such information.

As previously mentioned, we would suggest that the reference to the understanding of the entity be revised as follows: *“in light of our understanding of the entity and its environment acquired during **the performance of our audit.**”* We consider that the term ‘*material inconsistencies*’ is clear and understandable for users.

(b) We believe that it should be stated explicitly within the auditors’ statement that no assurance is being expressed in relation to other information. However, as summarised in our response to question 12 below, we would prefer the auditor’s responsibilities to be extended to include the provision of assurance over such narrative information. We envisage that this assurance would be in the form of a positive opinion and would represent a separate assurance engagement.

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?

Response 12

We do not believe that the auditor’s responsibilities in relation to other information as referred to in the proposed ISA, go far enough and we would welcome those responsibilities being extended to the provision of greater assurance resulting in a positive opinion on other information. Requiring auditors to have to issue an opinion sends a stronger behavioural message to the party who is required to report.

In December 2010, the ICAS Future of Assurance Working Group published its recommendations for improvements to the external auditor’s reporting process. One of these recommendations proposed that the narrative section of an organisation’s annual report, be subject to a new positive opinion, whereby the external auditor would provide assurance that the ‘story’ presented in the organisation’s annual report is ‘Balanced and Reasonable’.

As previously mentioned, ICAS has been developing a discussion paper which will suggest how auditors might provide such an opinion. The draft paper is expected to be issued in the Spring of 2013 with the aim of launching a debate on the provision of assurance on management commentary. We would welcome your comments and feedback on some of the questions that the paper poses and your participation at some of the Roundtable discussions we intend to host later in 2013.