

14 March 2013

The Chairman & Members

International Auditing & Assurance Standards Board

529 Fifth Avenue, 6th Floor, New York, NY 10017

Honourable Members of the Board:

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## **Re: ED 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**

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We welcome this opportunity to share our comments on the proposed ED.

The Board deserves our appreciation for revising ISA 720 and boldly marching forward for improving audit quality<sup>1</sup>, enhancing the auditor's responsibility by/ and requiring the auditors to articulate in their reports... the outcome of their work relative to the other information.

We note with satisfaction that: "The IAASB believes that it is necessary to consider the audited financial statements and the other information as a whole in this regard because both of them together provide the necessary context for users' decisions."<sup>2</sup> We agree that: "Given that the objective under the proposed ISA is not to provide assurance on the other information, there would be a risk that user may take a level of assurance from the auditor's work on this information that would not be warranted"<sup>3</sup>.

We fully support that "the proposed ISA requires identification of specific documents the auditor has read and considered".

We also support "inclusion of a statement to that effect in the auditor's report"<sup>4</sup>. It is a step forward to identify in the auditor's report the documents which have been made available; read and considered by the auditors prior to the date of the auditor's report. However, we also believe that where such information is not made available to the auditor, the fact should also be mentioned in the auditor's report.

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<sup>1</sup> Explanatory Memorandum, page 6

<sup>2</sup> Explanatory Memorandum, see page 10 "Definition of an inconsistency in the Other Information", 3<sup>rd</sup> para.

<sup>3</sup> Ibid, page .12 under "Directly Reconcilable Financial Information".

<sup>4</sup> Explanatory Memorandum, on page 14 under "Reporting" third para. Also see para 16 of the ISA.

We do not support Board's position that the auditor should keep on tracking other information after the signing of the report<sup>5</sup>. The responsibility of the management to make available other information to the auditor should be mentioned in clear terms in the ISA alongwith management's decisive say in choosing its contents<sup>6</sup>.

Furthermore, we also do not support Board position that other information beyond that required for the purposes of the audit is within the scope of this ISA<sup>7</sup>.

## Specific Comments

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### *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?*

We agree that there is a need to strengthen the auditor's responsibilities; we consider it to be in public interest. However, the auditors need to be clear about what is expected of them. We have serious reservations about the use of term "other" which in our local context is taken to be something unclassified and unimportant.

We consider the use of word "other" to be a misnomer. We would recommend it to be replaced with "additional"<sup>8</sup>. Therefore, the title of this ISA should revised to be "The Auditor's responsibilities in respect of additional disclosures made available for enhancing user understanding of the audited financial statements". Alternatively, it can be "Auditor's Responsibilities in respect of Information made available with or along

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<sup>5</sup> A25 states: "The ISA applies regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report."

<sup>6</sup> The burden of obtaining information should not be placed on the auditor but on management to make such information available.

<sup>7</sup> See A4. Its contents have been repeated in A32 as well; it contradicts A13.

<sup>8</sup> Or "Supplementary"

with Financial Statements and the Auditor's Report".

As we understand the term "other" information "may be financial and non-financial in nature and may be historical or prospective"<sup>9</sup>. And the term financial information may be quantitative and qualitative<sup>10</sup>.

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Our concern is that the scope of other information is too wide for an auditor to contribute effectively and meaningfully in improving its credibility, unless auditor and user can specifically pin-point the information segment considered by the auditor.

Add to it the fact that the ISA calls for no cross-referencing of those information segments that enhances the users' understanding of the audited financial statements or the financial reporting process. Nor does it states the fundamental fact that it is the responsibility of the management to be responsible for the contents of the other information or its availability to the auditor prior to the auditor's report.

Given the limitations above, that is, the nature of other information<sup>11</sup>; no means to control the identification of information segment within the scope of the audit; the possible conflict-of-interest in deciding upon the contents and manner of presentation of other information by management; and non-compulsion on management to make such information available to the auditor prior to signing of auditor's report, all add to the burden of the auditors disproportionately.

Regarding costs and benefits of this procedure, the additional effort and time required must be a part of the audit fee and we do agree that such procedure in its true spirit is in public interest.

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<sup>9</sup> See A16

<sup>10</sup> See A17

<sup>11</sup> Not all the prospective information provided as a part of other information falls within normal scope of audit. This is also true for certain historical non-financial information as well.

Lastly, we believe that unless this ISA would take care of the concerns above, it will go on to add to the so-called 'expectation gap'. The caveat of non-assurance non-review is unlikely to bridge that gap.

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 do not support Board's position that other information required beyond that required for purposes of the audit is within the scope of this ISA<sup>12</sup>. The auditor's responsibility for the other information should be limited to what is required for purposes of the audit.

Furthermore, the fact that management of an entity decides upon the contents of the other information and the possible conflict-of-interest in doing so needs to be recorded in this ISA and conveyed to the users. Where such information is not made available to the auditor, the same also needs to be reported.

3. *Do respondents find the concept of initial release<sup>13</sup> 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?*

No.

We notice that at several places<sup>14</sup>, the reader of this ISA has been referred to the other ISAs. As a result, this ISA is not a stand-alone document.

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<sup>12</sup> See paragraph 4; its contents are similar to A35,

<sup>13</sup> As in paragraph 9(b)

<sup>14</sup> See A11 which refers to ISA 315; A19 refers to ISA700; A22 and A27 which refers to ISA 560; A28 refers to ISA 315;; A30 refers to ISA 200; A33 refers to ISA 220;

Furthermore, what is within the scope of other information and what is not, is described in a single place, but scattered in fragments<sup>15</sup>.

4. *Do respondents agree that the limited circumstances in which securities offering documents<sup>16</sup> 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?*

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The securities offering documents must simply be scoped out of this ISA.

This ISA should exclusively deal with the regular and recurring documents that are released alongwith the audited financial statement.

#### *Objectives*

5. *Do respondents consider that the objectives<sup>17</sup> 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<sup>18</sup>” 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*

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<sup>15</sup> Not within scope of this ISA: See A5 “press release issued as preliminary announcement; loan agreements and tender documents are outside the scope of this ISA, see A6. The principle mentioned in A13 should be mentioned in the main text of the ISA.

<sup>16</sup> See paragraph 3(b) and A1.

<sup>17</sup> See paragraph 8

<sup>18</sup> See paragraph 8(a)

*reading and considering the other information for consistency with the audited financial statements?*

Yes.

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Revise as: "The objective of auditor in considering other information as a part of audit is to ensure that the other information is consistent with the financial statements and that financial statements are not misstated."

(a) No. We find the use of words "and its environment acquired during the audit" to be distracting and superfluous<sup>19</sup>; it states the obvious. Can an auditor develop an understanding of the entity without reference to its environment? Auditor's understanding of the entity encompasses its environment.

(b) Yes. The ISA should guide in terms of what kind of information poses the highest risk of inconsistency of other information or misstatement of financial statement. One way is by a "pyramid of risk", the risk of inconsistency and/or misstatement rising from bottom to the top.

For example, the base of such pyramid is the quantitative financial information that can be traced back to the financial statements, historical or predictive; it poses the least risk to the auditor of being inconsistent as it is readily traceable. Only if such information segment in the other information can be cross-referenced, a link between the principal (financial statements) and secondary (the document containing other information) can be created. Such thoroughness<sup>20</sup> can truly go on to improve the users' understanding.

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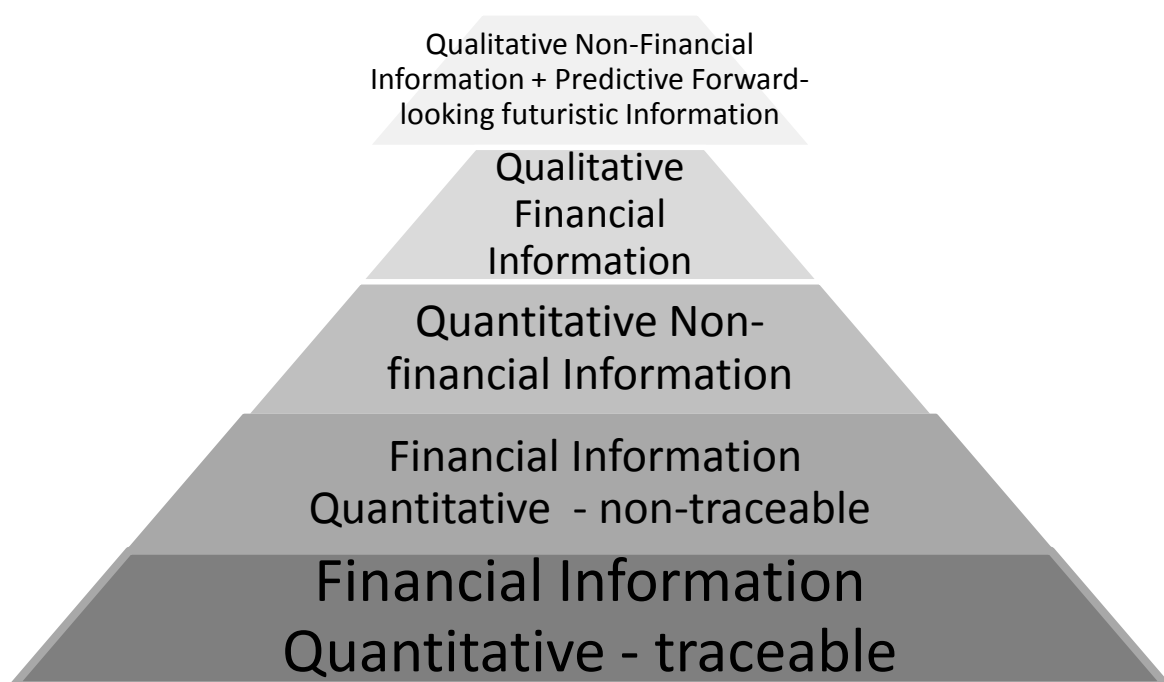
<sup>19</sup> Here's another one: "audited financial statement and the auditor's report thereon" of the same genre; used thrice in paragraph 9(b) and 9(c). What is the possibility of it being interpreted to be referred to two unrelated documents?

<sup>20</sup> "The IAASB believes that it is necessary to consider the audited financial statements and the other information as a whole in this regard because both of them together provide the necessary context for users' decisions." See page 10, Explanatory Memorandum.

Then comes the historical quantitative financial information that may not be readily traceable as such from the financial statement but within the scope of audit.

Up above is quantitative non-financial information traceable and untraceable from the financial statements. With proper internal controls, its possible to be relatively comfortable about such information segments as these are historical in nature.

On the summit is qualitative financial non-financial information that is predictive, forward-looking, and futuristic in nature. This poses the highest risk of inconsistency and misstatement to the auditors.



*Definition of an inconsistency in the Other Information Q6-7*

6. *Do respondents agree that the definitions of terms of “inconsistency”<sup>21</sup> including the concept of omissions and “a material inconsistency in the other*

<sup>21</sup> See paragraph 9(a)

*information are appropriate?*

Yes.

The central theme of the ISA revolves around two concepts: “material inconsistency” and “material misstatement”; the later term not defined.

We laud the Board on including the concept of omissions as a part of definition of “inconsistency”. However, this matter appears to have not been granted the attention it deserves; there’s no guidance on the response of the auditor if a matter which should have been included in the other information has been omitted by the management altogether.

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?*

No.

We suggest A2 to state: “Inconsistency relates to an inaccuracy in the other information whereas misstatement relates to an inaccuracy in financial statements. To clarify, other information cannot be misstated and financial statements cannot be inconsistent.”

For complete understanding we recommend that the management’s responsibility for other information, its privilege of deciding upon its contents and its sequence, should also be mentioned categorically.

*Nature and Extent of Work Effort Q8-9*

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?*

Yes.

(a) Yes.

(b) No.

We do not support the blanket endorsement of entire document containing other information but strictly the information segment that falls within the scope of audit<sup>22</sup>.

We believe that each information segment read and considered by the auditor should be identified to distinguish it from those for which no not fall within the scope of audit. For this purpose, wherever possible, the other information should be cross-referenced with the financial statements.

(c) No.

Being on alert about what is being stated in the other information would make the auditor take notice of what would have passed otherwise without much ado. This may require auditor to review their own work more closely, requiring additional work effort if not extending the scope of audit.

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<sup>22</sup> Paragraph 4 and A35 include within the scope of this ISA other information that extends beyond the auditor's understanding. This also appears to be contradicting A13.

9. *Do respondents believe that the examples of qualitative and quantitative information<sup>23</sup> included in the Appendix in the proposed ISA are helpful?<sup>24</sup>*

Yes; the quality of its contents can be improved, however, with information viewed in “three” dimensions: financial or non-financial, qualitative and quantitative, historical or prospective should be mentioned.<sup>25</sup>

The quantitative financial information should be stated under the following headings: financial position (example: capital expenditure by segment or division, acquisition and disposal of assets/subsidiaries), financial performance (e.g., financial results, commodity price graphs, etc), cash flows (e.g., from operations, investing and financial activities; liquidity and capital resource information), financial analysis (ratios, graphs, etc).

*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?*

No.

The auditor’s responsibility for other information should not be open-ended. It is realistic that an auditor can effectively respond to an inconsistency or misstatement only if other information is made available to him prior to date of auditor’s report. Thereafter, his response is not meaningful.

Where other information is not made available to the auditor his only

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<sup>23</sup> Note that the appendix is about quantitative and qualitative “financial” information, whereas its more systematic for it to be about information, further classified as financial and non-financial and thereafter as historical and prospective.

<sup>24</sup> See A17

<sup>25</sup> See A15

responsibility should be to mention the fact in his report.

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?*

(a) No.

(b) Yes; the statement is more a caveat than a conclusion.

Instead revise the auditor’s report to state positively: “We have read and considered the disclosures in the identified documents that fall within the scope of our audit and found them to be consistent with the financial statements.”

We have also recommended that the conforming amendments be made in the audit engagement (ISA-210) and letter of management representation.

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?*

No.

We do not support the Board on burdening the auditor indefinitely.

The auditor should not be responsible for other information if not made available to him before the auditor’s report. The fact should be so mentioned in the auditor’s report. This matter must come to an end at

that point in time.

Each information segment in other information should be classified. Those that can be traced to the financial statement should be cross-referenced, whether financial or non-financial, historical or predictive. Such referencing will make it clear to the user that such information segments carry a greater level of credibility than those which do not.

End of Specific Comments.

*Recommendation on format of "Request for Specific Comments":*

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*We appreciate the layout of "Significant Matters and Requests for Specific Comments". Listing of topics and questions<sup>26</sup> related thereto would have added to its ambience.*

- 1. Scope of the Proposed ISA Q1-4*
- 2. Objectives Q5*
- 3. Definition of an inconsistency in the Other Information Q6-7*
- 4. Nature and Extent of Work Effort Q8-9*
- 5. Responding When the Auditor identifies That the Audited Financial Statements May Be Materially Misstated Q10*
- 6. Reporting Q11-12*

*We also recommend that the questions for which specific comments are requested may contain the relevant references of the paragraph in the ISA and Explanatory Material where the subject-matter of the question may be readily accessed. This will aid the respondents to directly access the relevant text to respond to the question.*

**Paragraph-wise (=p,) General Comments on the ED ISA-720 (Revised):**

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Scope of this ISA

p.1: Revise as: "This International Standard on Auditing (ISA) prescribes the auditor's responsibilities for additional/supplementary information released with or along the audited financial statements that enhances the user's

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<sup>26</sup> Question may be placed at the beginning of the topic to aid the respondents. Alternatively, the topic may be repeated in the headline.

understanding of the audited financial statements or the financial reporting process and within the auditor's understanding of the entity."

p.2: Revise as: "The management of an entity is responsible for compiling supplementary information that is released with or along the audited financial statements, and for deciding upon its contents. It is the responsibility of the management of the entity to make available the supplementary information to the auditors before the date of the auditor's report. The auditor's responsibility is to identify any material inconsistency with the audited financial statements".

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The following statement in p.2 "the auditor's understanding of the entity and its environment acquired during the course of the audit" repeated in p.8(a) and p.11. We find the text after "and" to be superfluous. Is there a way to simplify this statement and avoid its repetition?

p.3: Revise as: "This ISA only applies to the specific contents in the documents identified in the auditor's report and does not apply to<sup>27</sup>:....

"(c) a press release issued as preliminary announcement<sup>28</sup>".

The contents of p.6<sup>29</sup> should be added as part (c) of this para.

The fact that loan agreements and tender documents<sup>30</sup> are outside the scope of this ISA should also be added as part (d).

p.4: "The responsibility of the auditor in reading and considering supplementary information is limited to identifying inconsistency (see definition in p.9(a)) vis a vis audited financial statements and take remedial measures. The auditor assumes no additional responsibility for the contents that are beyond the scope of audit unless prescribed by specific legislature. All documents that contain information that can be traced to the audited financial statements are within the scope of this standard."

*The p.4 in its present form appears to be reproduction of an extract of A32.*

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<sup>27</sup> Incorporate contents of A13 here: "Accompanying documents that do not have a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process are outside the scope of this ISA....

<sup>28</sup> See A5

<sup>29</sup> P.6 = "Law or regulation may impose obligations on the auditor to express an audit opinion or a review conclusion on the other ifnroamtion."

<sup>30</sup> Para A6

This para should also state, as examples, what is within the scope of this ISA<sup>31</sup>.

p.5: “This ISA does not impose an obligation on the auditor to seek to enhance the auditor’s understanding of the entity and its environment beyond that required for purposes of the audit.”

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p.6: See p.4 above.

#### *Objectives*

p.8 Revise as: “The objectives of the auditor, having read and considered the additional information are to:

(a) Respond appropriately when the auditor identifies that.....

(b) Report.....ISA.”

#### *Definitions*

p.9(a): Revise as: “An inconsistency in the other information is considered as material if it fails to convey relevant financial and non-financial facts in a clear, concise and precise manner”.

9(a)(i) Revise as: “Contains information that is incorrect, contradictory, incomplete, unreasonable and inappropriate. It also means information not measuring upto in characteristics of financial information as stated in the Framework issued by the IASB”.

p.9(c): “Supplementary information – Financial and non-financial information providing commentary to enhance the user’s understanding of audited financial statements or the financial reporting process included in one document”.

#### *Requirements*

##### *Obtaining the Other Information*

p.10: The obligation on management for making available other information before the auditor’s report should be a term of the audit engagement letter.

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<sup>31</sup> See A12. Also, the press release issued in connection with initial release (let there be no confusion of this term with “preliminary announcement”). Both terms used in A5.

The audit engagement letter should clearly state the responsibility of the auditor in respect of the additional information that the management releases with or along with the audited financial statements.

Reading and considering the Other Information

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p.11: The contents of A 35 should be placed here.

“While comparing the supplementary information and the financial statements of the entity, there are two possibilities; either the information is inconsistent in the additional information or misstated in the financial statements. The auditor needs to take steps to determine which one of these is misstated.”

The auditors response in case of material inconsistency or material misstatement can be presented by a simple decision flow chart.

p.12:”If the auditor identifies a material inconsistency the same shall be confirmed by performing additional procedures and on confirmation may be conveyed to the management in the most appropriate form for resolution at the earliest.”

Here the expression in p.12 “based on reading and considering the other information” and repeated in p.15 again appears to be superfluous and should be deleted. It states the obvious. The auditor is suppose to identify only after reading and considering.

p.13: Revise: The auditor shall ensure the resolution of the material inconsistencies with the management. If the management agrees to make the correction, the auditor shall determine that the correction has been made. In case the management refuses, the same shall be conveyed to those charged with the governance for necessary action.

p.14: Revise: “If those charged with the governance refuse to make correction the auditor shall consider reporting implications (see para 16 (c) or Para A52)”.

This paragraph in its present form requires auditor to consider taking “appropriate action” including reporting and withdrawing from the engagement.

p.14 (b): In our opinion, the auditor should be responsible for supplementary information only if such information is made available to the auditor prior to the date of the auditor’s report. Thereafter, it is onerous to keep that burden on auditors. Afterall, an assignment needs to come to a close. In case additional

information is not made available to the auditor the fact should be mentioned in the auditors report<sup>32</sup> and the chapter should be closed. Why should auditor be held responsible if the management in not making available the additional information before the date of the audit report?

Furthermore, it refers to ISA 560. We think that for this ISA to be a stand alone document, the action should have been mentioned as a note, if it was not possible to produce the same due to its length etc.

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

p. 15. Revise: “If the auditor determines that the audited financial statements may be materially misstated, the auditor shall perform additional procedures to confirm the same”.

Or: “The auditor shall perform additional procedures to confirm if the audited financial statements have been materially misstated in the light of the material inconsistency determined based on the supplementary information”.

The paragraph simply requires an auditor to perform additional procedures in case the indications are that the financial statements have been misstated but it conveys the same in a confusing round about manner.

Reporting

p.16 “The auditor shall include a statement in the auditor’s report comprising the following elements (Ref: Para A57-A58)

(a) A description of the management responsibilities to make available to the auditor the additional information prior to the date of the auditor’s report and for its contents.

(b) A description of the auditor’s responsibilities with respect to identify material inconsistencies between supplementary information and his understanding of the entity and to resolve the same which fall within the scope of audit.

(c) The fact whether the management has made available to the auditor the supplementary information prior to the date of the auditor’s report and identification of the specific documents that contain such supplementary information.

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<sup>32</sup> See our comments on A59



(d) A statement that the information that fall within the scope of audit have been referenced and cross-referenced with the financial statements.

(e) A statement describing unresolved material inconsistencies.

(f) A statement that no additional procedures have been performed to determine the accuracy of information not falling within the scope of audit. Page | 17

p.17: Revise “In case of unresolved material inconsistencies affecting the financial statements, the auditor may proceed to modify the auditor’s report”.

Reporting Prescribed by Law or Regulation

p.18: Contents not understandable to us.

Documentation

p.19:” The auditor is required to document the process undertaken to identify the material inconsistencies in the supplementary information and the financial statements and to list its findings/conclusions”.

p.20: No change.

## Selective Comments on Application and Other Explanatory Material

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Scope of this ISA

Securities Offering Documents (Ref: Para 3(b))

A1: We find this to be in direct contradiction to p.3(b). In our opinion, the initial offering documents should not be within the scope of this ISA. This ISA should be applicable only in case of recurring financial reporting only.

We would go by the principle that any information in the supplementary documents should be identified by referencing and cross-referencing it with the financial statements. This is in line with the explanation that supplementary information enhances the understanding of the user.

Definitions

Inconsistency in the Other Information (Ref: Para (a))

A2: Revise to state: “Inconsistency relates to an inaccuracy in the other information whereas misstatement relates to an inaccuracy in financial

statements. To clarify, other information cannot be misstated and financial statements cannot be inconsistent.”

The auditor may identify inconsistencies in the supplementary information that may range from trivial to material. Materially false and misleading information is by its nature materially inconsistent.

Considerations specific to the Public Sector Entities

A3: Information may be put to several uses. How is one supposed to know the one to which it will be put?

We do not agree with the premises of this para.

A5: Contents not clear to us.

A6: Loan agreements and tender documents are not within the scope of this ISA. The fact should be stated in p.4

Other Information (Ref: Para 9(c))

A7 & A8: Contents not clear.

Documents containing Audited Financial Statements and the Auditor's Report thereon

A11: Revise as: “A document is within the scope of this ISA if it has a primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements or the financial reporting process.”

The contents of A12 and A13 should be placed in the main text of the ISA.

Integrated Reports

A14: “An integrated report containing audited financial statements and the auditor’s report thereon, that is issued in connection with the initial release, is within the scope of this ISA.”

Types of Other Information

A15: This paragraph provides examples of financial and non-financial information. Contents of examples of financial may be placed in appendix. Non-financial data may also be quantitative or qualitative, just like financial data. The examples of non-financial information may also be classified on lines of Appendix. For example, key performance indicators such as operating,

employment, safety, data is quantitative non-financial data. Names and profiles of directors are qualitative in nature.

In our opinion, the auditor's responsibilities on supplementary information should exclude prospective information categorically.

A17: Comments on the Appendix: The quantitative financial information should be stated under the following headings: financial position (example: capital expenditure by segment or division, acquisition and disposal of assets/subsidiaries), financial performance (e.g., financial results, commodity price graphs, etc), cash flows (e.g., from operations, investing and financial activities; liquidity and capital resource information), financial analysis (ratios, graphs, etc).

A18: "Specific disclosures required by the applicable financial reporting framework form part of the audited financial statements and do not constitute other information for the purpose of this ISA even if such disclosure may be located outside the audited financial statements."

A19: Unaudited supplementary information falls within the definition of other information and therefore within the scope of this ISA.

Obtaining the Other Information (Ref: Para 10)

A22: "It is the responsibility of the management of the entity to make available to the auditor all such supplementary information that will be released along with the audited financial statements prior to the date of the audit report. If the management fails to do so, the fact should be mentioned in the auditor's report.

For this ISA to be stand-alone document, it is necessary that what is mentioned in ISA-560 should be mentioned in the foot note for user to understand what is required.

A25: "This ISA applies only when the supplementary information is made available to the auditors prior to the date of the audit report. The responsibility of making available such information rests with the management alongwith its contents."

A26: "In case no supplementary information is made available to the auditor, the auditor shall go on to issue the auditor's report."

We completely agree that the audit engagement letter may make a reference to include auditor's responsibilities in respect thereof. However, proposed consequential and conforming amendments to other ISAs do not propose any amendment in the relevant ISA 210. Why?

A27: "There is no responsibility on auditor to take any action once the other information is not made available prior to the auditor's report."

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We do not agree that there should be any responsibility on auditors for other information if the same is not made available prior to the date of the auditor's report. This cannot be an open-ended responsibility. There should be a clear end to it.

Reading and Considering the Other Information (Ref: Para 11)

A28-31: We do not think that the auditor should have any role or responsibility for any prospective information.

A32. This is identical to para 4 and should be deleted. We find this to be in contradiction to A18.

A35: The text should be a part of paragraph 11.

Responding When the Auditor identifies That There May Be a Material Inconsistency in the Other Information<sup>33</sup>

Determining Whether a Material inconsistency in the Other Information Does Exist<sup>34</sup>

A44.

Reporting

Illustrative Statements (Ref: Para 16)

Illustrative Statement When the Auditor Has Not Identified Material Inconsistencies In the Other Information

A57: Revise: "The following is an example of the statement that would be included in the auditor's report when the auditor has not identified a material inconsistency in the supplementary information:

The management is responsible for the contents of additional information and for making it available to us before the date of our Report. Our responsibility is to report whether we have identified material inconsistencies in [specify the

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<sup>33</sup> Revise heading as "Responding When the Auditor identifies a Material Inconsistency". An inconsistency relates exclusively to the other information only. Hence, the unnecessary clutter should be avoided.

<sup>34</sup> Revise heading: "Determining Whether a Material Inconsistency Exists".

documents containing the supplementary information e.g. the entity's annual report for the year ended December 31. 20X1] that fall within the scope of our audit. Such information have also been identified and referenced where possible with the relevant notes to the financial statements. We have not identified material inconsistencies in the supplementary information. However, we also state that no additional procedure has been performed to determine the accuracy of information not falling within our scope of audit and we do not express an audit opinion or a review conclusion on it.

Illustrative Statement When the Auditor Has Identified Material Inconsistencies In the Other Information

**A58. Revise:** “An example of the statement included in the auditor’s report when the auditor identifies a material inconsistency in the additional information and withdrawal from engagement is not necessary or possible in the circumstances.

The management is responsible for the contents of the additional information and for making it available to us prior to date of our report. Our responsibility is to report whether we have identified material inconsistencies in [specify the documents containing the supplementary information e.g. the entity’s annual report for the year ended December 31. 20X1] that fall within the scope of our audit. Such information have also been identified and referenced where possible with the relevant notes to the financial statements. We have identified material inconsistencies in the supplementary information [describe the inconsistency]. Furthermore, we must also state that no additional procedure has been performed to determine the accuracy of information not falling within our scope of audit and we do not express an audit opinion or a review conclusion on it.

Other Information Not Available at the Date of the Audit Report (Ref: Para 16(b))

**A59. Revise:** “An example of the statement to be included in the auditor’s report when additional information is not made available to the auditor prior to auditor’s report.

It is the responsibility of the management to make available to us the supplementary information and for its contents before the date of our Report. Our responsibility is to report whether we have identified material inconsistencies in [specify the documents containing the supplementary information e.g. the entity’s annual report for the year ended December 31. 20X1] that fall within the scope of our audit. Such information is also identified and referenced here possible with the relevant notes to the financial statements. We have not been provided with such information and hence we

are in no position to identify material inconsistencies in the additional information.

## Comments: Developing Nations:

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The title of the ISA should be changed as “other” in Pakistan is normally taken to something that is insignificant and/or incapable of further classification. For example, here in the financial statement you will find “other” in the last row and it is ordinarily taken to mean something not worth bothering about. Use of the term “other information” is taken to be granted in similar meaning.

The Institute of Chartered Accountants of Pakistan vide circular 04/2006 dated 22 March 2006, invited its members to comment on the ISA. In its explanatory it stated: “The reason for not adopting the ISA by the Council of the Institute was that in most of the cases the information published along with the annual report was not made available to the auditors and as a result of this, auditors were unable to review and identify material inconsistencies, if any, with the audited financial statements. Also, there was no legal requirement on the managements of the companies to share such information with their auditors within a time frame that will enable the external auditors to review it prior to the publication as is the case in certain other jurisdictions.”

Further, the Securities and Exchange Commission of Pakistan felt that the issuance of a circular would achieve the desired result and recently issued a Circular No. 23/2005 dated December 14, 2005 making it obligatory for all listed companies and their subsidiaries to provide “Other information” contained in their annual reports to their external auditors.

In short, the ISA 720 was issued in 1984 and was adopted after a lapse of more than 22 years by our Institute in 2006 (I do not have exact date available).

In my comments on ISA to the Institute of 10 April 2006, I mentioned about the need to modify the auditor’s report and to respond to the exclusions and omissions in the other information and clear cut auditor’s responsibilities.

I am satisfied that most of these concerns now stand addressed in the ED ISA 720 (revised). The others have been mentioned.

We wish the Board all the best in coming up with a better standard.

End of Comments. Thank you.

Sincerely,

Altaf Noor Ali

Chartered Accountant.