Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York, New York 10017  
United States of America

Dear Sir

EXPOSURE DRAFT: 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 Audit Oversight Board, Malaysia, supports the efforts of the International Auditing and Assurance Standards Board (IAASB) in relation to the proposal on the Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon.

Although the proposal provides specific guidance on the auditor’s responsibilities, there is still professional judgement required and the users of financial statements may not necessarily comprehend the responsibilities of the auditors which may widen the expectation gap between the auditors and readers of the audit report. Therefore sufficient feedback from the readers on the proposed standard of the audit report is crucial to ensure the intended objective of this proposed standard is met.

We are pleased to provide our specific comments and feedback on the proposed standard, as attached in Appendix I.

Should you require any further clarification, please do not hesitate to call Lim Fen Nee at +603 2091 0608 or at her email FNLim@seccom.com.my.

Thank you.

Yours faithfully

NIK MOHD HASYUDEEN YUSOFF
Executive Chairman  
Audit Oversight Board
APPENDIX 1

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?

Notwithstanding that IAASB has stated in the explanatory memorandum that likely costs and benefits of the alternatives approaches were considered, it is important to note that the likelihood incremental in the costs which may include the increased in underlying risk to the auditor as a result of assuming additional responsibility, such increased should not outweigh the benefits or the overall quality and enhanced value from the proposed revision of this ISA standard. This was not explicitly discussed in details by IAASB in its explanatory comments.

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?

Generally, we agreed on the principle of broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor’s report. However, we believe the interpretation of other information, particularly on qualitative aspects of the interpretation could be subjective and may lead to inconsistency of practice among the auditors.

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?

The concept of initial release is clear and understandable and it may be different from the date of the issued financial statements as defined in ISA 560.

4. Do respondents agree that the limited circumstances in which 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?
The securities offering document typically involves various parties and such information may already be subjected to a stringent due diligence process. Hence, as rightfully included in the question, the inclusion of the matter in the scope of this proposed ISA may duplicate or conflict with procedures the auditor may otherwise be required to perform pursuant to national requirements.

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?

5(a) We believe the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor. However, we also believe the phrase may be subjective and influence the scope of audit procedures covered by the auditor. Further, as commented elsewhere in the earlier questions, we have concerns over the degree of subjectivity in the interpretation of qualitative aspects on other information.

5 (b) We believe it may not be clear to the users of financial statements on the auditor’s responsibilities

In addition, statement that the auditor has not audited or reviewed the other information and does not express an audit opinion or a review conclusion on it as illustrated in paragraph A57 and A58 of the application material of the proposed revised standard may not add any value to users of 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?”
The concept would be clearer if there is lesser subjectivity involved in the interpretation of qualitative aspects of other information.

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?

We believe due to the different backgrounds of the users of financial statements, the users might not necessarily comprehend the context of inconsistencies mentioned above.

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?

8(a) Principles-based approach is welcomed however we believe the element of subjectivity on the qualitative aspects of the other information may provide challenges to the auditors and users of financial statements.

8(b) Depending on the interpretation of the other information, particularly on its qualitative aspects, the nature and extent of the work effort may be different.

8(c) We believe the proposed revision of this standard does extend the scope of the audit.

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

We believe the examples of qualitative and quantitative information included in the Appendix in the proposed ISA provide certain clarity.
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?

We believe the proposed requirements are clear.

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?

11(a) The report may not be clear to other users of the auditor’s report. Thus, IAASB may need to consider to issue study materials to provide clearer understanding on this matter.

11(b) We believe, this is clear however would need to reconsider the enhanced value from the proposal.

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?

Subject to the other comments, the level of assurance provided in the revised standard is appropriate.