

Mr James Gunn
Technical Director
IAASB
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

15 March 2013

Dear Mr Gunn,

Re: IAASB Exposure Draft (ED): ISA 720 (Revised)

The Malta Institute of Accountants (“MIA”) is pleased to provide you with its comments on the IAASB Exposure Draft (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, as developed and approved by the International Auditing and Assurance Standards Board” (“the ED”) with proposed changes to the International Standard on Auditing 720 (“ISA 720”).

The MIA is the voice of the accountancy profession in Malta providing professional guidance, technical support and continuing professional education to Maltese accountants. It is the only approved accountancy body that is recognised in terms of Maltese law. The Institute ensures that professional standards and ethics applied locally meet the requirements of international regulatory bodies and works to uphold the reputation of the profession both locally and overseas. The Institute is an IFAC founder member and a member of FEE (Federation of European Accountants).

The MIA is committed to attracting talented individuals to the profession by continually investing in the education of prospective accountants and also helps to promote a proper understanding of the role and the value of the accountancy profession to the wider Maltese public in general and, in particular, to the local business community.

The MIA acknowledges that the current ISA 720 could benefit from a revision. Nevertheless we believe that the proposals as currently drafted are not sufficiently refined and need significant improvements. Accordingly the MIA does not support most of the overall and detailed proposals in the Exposure Draft. Rather than replying to the specific questions posed to respondents, we have put forth a number of comments in the appendix to this letter.

For further information on this MIA letter, please contact Mr Mark Abela on 2258 1900 or via email at mabela@miamalta.org.

Yours sincerely,

Anthony Doublet
MIA President

APPENDIX

General Comments

1. As we have said in our covering letter, the MIA is not against the proposed revision of ISA 720. This notwithstanding, we believe that the proposals as currently drafted are not sufficiently refined and need significant improvements.
2. We do not think that the objectives in paragraph 8 are aligned with the actual purpose of ISA 720. Without proper and well defined objectives, this ED will not address the expectation gap but may even increase it. We believe that the objective should be clearer and should state what ISA 720 is for. On the contrary, the general objective in paragraph 8 does not state the goal expected to be achieved by the auditor through the work performed on other information and the assessment of the "primary purpose" of the document to determine if a document is within the scope of the auditor's verification or not could raise some inconsistencies in application of the standard.
3. The auditor's work on other information is the core matter of the proposed ED. The Institute agrees that the auditor's knowledge and understanding of the entity and its environment, obtained during the course of the audit of the financial statements, is a particularly valuable skill that could be used to challenge management's assertions in other information, particularly quantitative financial information that may be included in other information, since this information can be objectively verified, albeit involving more audit work (please see our comments on the 'Nature and Extent of Work Effort'). Problems will start to be encountered when the information that may be included in other information is more qualitative because of its subjective nature.
4. The fundamentals of an audit engagement on financial statements do not currently include an obligation to provide "assurance" on other information and indeed we do not think that the auditor can give "assurance" on this other information as part of the statutory audit, but rather as a separate engagement. As we have said, the auditor is well positioned to provide assurance on this additional information; however we prefer a separate engagement and separate requirements for the auditor's responsibilities for other information. Accordingly, the Institute encourages the IAASB to consider whether the development of a limited assurance engagement should be the way forward rather than adding auditor's responsibilities related to other information to the audit engagement.
5. We are also aware that legislators and regulators determine when audits of financial statements or assurance on auditor's work other than on financial statements. The Institute therefore encourages the IAASB to be explicitly clear as to the level of "assurance" that it believes should be provided. If the purpose is not to provide "assurance", this statement should be explicitly made and reinforced through clarity of the "boundaries" of an audit engagement; namely where an audit of financial statements ends and where supplementary or separate assurance and other related engagements might begin.

Scope of the ED

6. The Institute does not think that the Board has managed to clearly define the boundaries of which documents are to be included and excluded from the scope of the standard and that, by way of consequence, the auditor is expected to examine or not, along with the audited financial statements.
7. We firmly believe that the boundaries should be set to give a better timeframe with regard to other information that should be included in the new ISA 720. We think that all other information published prior to the issuance of the financial statements (together with the audit report) should be outside of the scope of ISA 720, which can therefore only include other information as from the moment the financial statements together with the audit report are issued and that this accompanying other information should be issued at the date of the audit report or very swiftly thereafter, since the auditor cannot be associated with other information that he may not have encountered during his audit work.

The auditor's knowledge and understanding

8. The MIA acknowledges that the auditor's knowledge and understanding of the entity and its environment, obtained during the course of the audit of the financial statements is particularly valuable. This notwithstanding we have a number of concerns in this regard.
9. The auditor's understanding obtained during the course of a financial statements audit will be limited to that which is relevant to the auditor's risk assessment, which is therefore judgemental and can vary from one audit engagement to another. We are concerned that the concept presented in the ED can lead to confusion as well as increase the expectation gap, because different people may have different expectations as to what an auditor should have covered as part of the understanding of the entity.
10. Although the ED acknowledges that a particular report may have information that extends beyond the auditor's understanding of the entity, the report is still considered to be within scope. It will obviously be very confusing for a reader to know or understand what information did an auditor 'read and consider';
11. Some examples in the Appendix and in the proposed guidance seem to suggest that the auditor's understanding of the entity may well extend beyond the understanding that may be expected under the current ISAs as part of the audit of the financial statements (examples include description of market trends, contrasts of supply, demand between geographic regions, etc.)
12. We also struggle to comprehend whose understanding it is that the Board is referring to in the ED. Indeed we do not think that the ED is sufficiently clear on whether it is the engagement's team members' understanding or whether it is the firm's understanding. Moreover we do not know whether the auditor's understanding should be derived from what is documented in the audit's working papers. Although paragraph A33 does provide some guidance on who should read the other information, the requirement is far too wide ranging.

Definition of an Inconsistency in the Other Information

13. We think that the concept of “inconsistency”, as included in the definitions under paragraph 9(a), is used incorrectly. The definition used in the ED relates to information contained in the “other information” that is incorrect, unreasonable or inappropriate, or that omits or obscures to prevent proper understanding.
14. According to the proper meaning of an “inconsistency”, an “inconsistency” refers to the result of a comparison between two items that do not match up. In the light of this meaning and of such a broad range of work, which the ED proposed the auditor to perform, users will have the right to presume that the word “inconsistency” is being used in its plain English meaning as a relative term – that is, a difference between information. However we do not think that this is the meaning that the Board intended, which makes this comparison extremely difficult to handle such that we fear that it will not be sustainable and will augment the expectations gap.

Definition of Material Inconsistency

15. We are not sure that with the word “material” in the definition of terms, the IAASB is referring to the commonly used meaning of materiality as set out in ISA 320 “Materiality in Planning and Performing an Audit”. If this is the purpose, the MIA does not think this is practically adaptable because the auditor would have difficulty in considering materiality on the basis of the audited financial statements and the other information as a whole. However if this is not the case then the IAASB would be introducing a new concept of materiality and if this is the case, it should be clearer in the ED.
16. The level of assurance (or of comfort provided by the auditor) that is associated with the detection of “material inconsistencies” as newly defined in this standard, could be challenged by stakeholders. Providing a new specific definition of an “inconsistency” when dealing with “other information” could impair the common understanding of this notion. The potential consequences of this new definition on other standards should be carefully assessed.

Definition of Other Information

17. The definition of “other Information” in paragraph 9(c) is not clear. We believe that the Board ought to better clarify which information the auditor has a responsibility to consider and what not. Indeed we think that there is a lack of suitable criteria in the proposed ISA 720 to determine the type of information which should be considered as other information. Additionally, referring to “documents” in general might be very misleading because documents are not the only way information is communicated.
18. In the current environment, neither “documents” nor “containing or accompanying” are adequate terms to use. Readers accessing a website for example, cannot readily identify when information was posted, when it has been updated, and whether it belongs to or is together with the financial statements or not. The ED should thus refer to “information” instead of “documents”.

Nature and Extent of Work Effort (reading and considering)

19. The Institute thinks that the requirement “read and consider” is misleading because the application material suggests that more than just considering must be done. Indeed the application material in paragraph A37 and A43 implies a greater work effort than the use of the term “consider” in paragraph 11 would appear to suggest.