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International Auditing
& Assurance Standards Board
(Sent via web page for submissions)

Date 13th March 2013
Our ref AGPO106
Pages 1 of 7

Dear Sir or Madam,

Exposure Draft 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

The Auditor General for Wales welcomes the opportunity to comment on the IAASB Exposure Draft on International Standard on Auditing 720. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

In preparing this response on behalf of the Auditor General, we have considered the potential implications of the Exposure Draft for the not for profit public sector entities that fall within his remit, namely:

- The Welsh Government;
- Welsh Government sponsored and other related bodies;
- Local government bodies in Wales;
- Local health bodies in Wales; and
- Certain publicly owned companies

We agree that, against a background of increasing demand for, and provision of, narrative information to accompany audited financial reports, and the higher levels of importance being attached to this information by users, it is timely to re-consider the auditor's responsibilities relating to other information.

Users of accounts are increasingly demanding that entities provide more information on their activities and for auditors to provide further assurance on this information: we have some concerns that, notwithstanding any legal or regulatory reporting requirements, providing multiple audit conclusions that provide different levels of assurance on different information in one auditor's report could mislead users.

The IAASB has hitherto adopted an incremental approach to responding to demands for additional audit assurance regarding 'other' information. It may be an appropriate time for the IAASB to work with financial reporting standard setters to undertake a fundamental review to consider the nature and extent of 'other information' and the role of the auditor in providing assurance on this information (if any).

I hope that you find these comments and our detailed submission appended to this letter useful. If you have any queries regarding our response, please contact my colleague Iolo Llewelyn (e-mail: iolo.llewelyn@wao.gov.uk or telephone: 07766 505189).

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'S. Edge', with a stylized flourish at the end.

Simon Edge
Auditor General for Wales' Private Secretary

Appendix: Response to Consultation Questions

Question	Response
<p>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?</p>	<p>We agree with the proposal to strengthen the auditor's responsibilities with respect to other information.</p> <p>Users place significant reliance on other information and the amount of other information provided by management is increasing and is likely to continue to increase in future years.</p> <p>The proposed requirement for auditors to read and consider how other information relates to the financial statements and also to the auditor's knowledge of the entity and its environment should achieve an acceptable balance between improving the reliability and consistency of information for users and significantly increasing the workload of auditors.</p>
<p>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?</p>	<p>We agree that broadening the scope of the proposed ISA to include accompanying documents is appropriate.</p> <p>On the basis of the current reporting arrangements of the entities that we audit and the version of ISA 720 used in the UK, we would not expect a significant impact on our workload.</p> <p>However it is possible that in certain jurisdictions where un-audited public sector performance information is issued in such a way that will in future, be captured by the concept of initial release, and the auditor considers aspects of this information as part of the audit planning process, the revised standard could result in a need for auditors to undertake additional work, in order to link information gathered at various points in the audit to the work undertaken on the other information.</p>

Question	Response
<p>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 ISA560?</p>	<p>We agree that the concept is understandable and required in the context of the standard in order to prevent auditors facing open-ended obligations regarding the extent and timing of other information.</p> <p>We also agree that it is clear from the proposed standard that the date of initial release may differ from the date the financial statements are issued as defined in ISA560 (although this is not explicitly stated in the proposed standard).</p>
<p>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?</p>	<p>We do not have detailed comments to make other than it may be more appropriate to scope securities offering documents out of the proposed standard completely.</p>
<p>5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:</p> <p>(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?</p>	<p>We agree that the objectives of the proposed ISA are sufficiently clear.</p> <p>(a) The phrase "in light of the auditor's understanding of the entity and its environment acquired during the audit" is understandable and the guidance is useful, particularly in confirming that auditors do not need to enhance their understanding of the entity and its environment over and above that required for the purposes of the audit merely to confirm the consistency of all other information in documents within the scope of the proposed standard (proposed paragraph A32).</p>

Question	Response
<p>(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?</p>	<p>(b) It is clear from the proposed standard that the auditor's responsibilities include reading and considering the other information for consistency with the audited financial statements if the objectives, proposed paragraph 11 (requirement) and proposed paragraph 31 (application material) are read together.</p> <p>The requirement could be made clearer by explicitly stating in the standard that auditors shall consider whether other information is consistent with the audited financial statements and with the auditor's knowledge gained in the course of undertaking the audit. This may also address our concerns relating to the use of the word 'inconsistencies' – please see our comments in questions 6 and 7.</p>
<p>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?</p>	<p>We agree that it is important for auditors to be able to consider whether other information is inaccurate, unreasonable or presented in a misleading way and, if appropriate, report this to management and in the auditor's report.</p> <p>The use of 'material' is appropriate and the additional public sector guidance in proposed paragraph A3 is helpful.</p> <p>However, the definition of the term 'inconsistency' goes beyond its widely understood use which would be 'inconsistent with' rather than 'inconsistencies in'.</p> <p>The word 'inaccuracy' may better represent the scenarios in the proposed definition i.e. where information is inaccurate, unreasonable, inappropriate, incomplete or misleading.</p>

Question	Response
<p>7. Do respondents believe that users of auditor's 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?</p>	<p>Please see our comments in question 6 relating to the use of the term 'inconsistency'.</p>
<p>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:</p> <p>(a) Do respondents believe that 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?</p> <p>(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?</p> <p>(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?</p>	<p>(a) We agree that a principles-based approach is appropriate. This will allow the auditor to exercise professional judgment in determining the nature and extent of audit procedures required in different situations.</p> <p>(b) We agree that the categories of other information in proposed paragraph A37 are appropriate.</p> <p>(c) We agree that the work effort described in proposed paragraphs A36-A43 is appropriate to give the proposed statement in the audit report. For the entities that we audit, this will not extend the scope of the audit, although it may result in additional documentation to link information gathered at various points in the audit to the work undertaken on the other information. (See also our comments in response to Question 2).</p>
<p>9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?</p>	<p>We agree that the examples in the proposed Appendix are helpful in giving auditors an indication of the types of information that could be included in</p>

Question	Response
	documents considered to be 'other information'
10. Do respondents believe it is clear in the proposed requirements what the auditors 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?	The proposed standard and application material provides clear guidance on the auditor's response if the auditor discovers that his/her prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete.
<p>11. With respect to reporting:</p> <p>(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 the users of the auditor's report?</p> <p>(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?</p>	<p>(a) Although the length of the auditor's report could be increased, we welcome the requirement to explicitly state what 'other information' has been 'read and considered' in the report.</p> <p>The application material (proposed paragraph A37) states that auditors could agree quantitative financial information to the financial statements, compare qualitative disclosures in other information to those in the financial statements and review management's reconciliations of reconcilable information for accuracy. The term 'read and consider' may not properly communicate this level of work to users.</p> <p>Please see our comments in questions 6 and 7 above where we have considered the use of the term 'inconsistencies'</p> <p>(b) Despite the proposed statement in the auditor's report explicitly stating that there is 'no audit opinion or review conclusion' on other information; users may still read the proposed wording as providing a positive conclusion on the accuracy of other information.</p>
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?	We agree, based on the nature and extent of audit procedures required by the proposed standard, that the level of assurance provided is appropriate. However, please see our covering letter

Question	Response
	and comments in question 11b for further discussion on levels of assurance.