



INVITATION TO COMMENT ON THE IAASB'S EXPOSURE DRAFT (APRIL 2014) ISA 720 (REVISED) *THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION*

ICAEW welcomes the opportunity to comment on the Invitation to Comment on IAASB Exposure Draft (April 2014) ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* published by the Financial Reporting Council (FRC) in April 2014, a copy of which is available from this [link](#).

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MAJOR POINTS

This Invitation to Comment (ITC)

1. We are currently unable to provide our final observations to the IAASB on its revised ISA 720 proposals, however, we have made reference to the significant points we currently expect to make below.
2. We believe that there are only two issues of substance both for the UK and internationally: they are information received after the date of the audit report, and the variation in the work effort required in respect of inconsistencies.

Two issues of substance

3. **Information received after the date of the audit report:** currently this is scoped out of UK audits due to the requirements of ISA700. No change should be made to this position. We recognise that this does give rise to logistical difficulties for preparers, particularly those who want their audits signed before their preliminary announcements go out. Nevertheless, any change to the current UK position would very likely be perceived as a weakening and would be difficult to justify. Furthermore, there is in any case no satisfactory way of dealing with information received after the audit report has been signed. In our response to IAASB on its ED, our current intention is to urge IAASB to include wording in the final standard regarding the need for auditors to avoid being associated with entities whose management lacks integrity, or with misleading information. We will suggest that IAASB should give as an example of a lack of integrity the intentional withholding of contentious statements by management until after the audit report is issued, in the knowledge that auditors will read it but will be able to do little about it except in the most egregious cases, if something is amiss.
4. **Inconsistencies:** in our response to IAASB on its ED our current intention is to note our concern about the variations in process that may arise from the application of paragraphs A30 and A32. These paragraphs indicate that the extent of auditor knowledge depends on whether auditors decide to base their work on recollection alone, or on conversations with staff, or on file reviews. While we fully understand the need for flexibility, we fear that these paragraphs can too easily be misinterpreted as permitting auditors to do what they please. We also fear that some practitioners will always rely on recollection, that some regulators will always question auditors if they do not perform a detailed file review, and that some lawyers will seek to construe the material as requiring all members of the audit team to read the entire annual report.
5. We do not think that the proposals are fatally flawed in this respect, but we do think there will be considerable variation in practice. Our intention it therefore to encourage IAASB to make it clear in the material surrounding the issue of the final ISA, that the exercise of judgement in this area is just that. It does not mean that regulators should seek to interpret the requirements in the most demanding manner possible, regardless of circumstances, any more than auditors should seek to do the bare minimum, regardless of circumstances.
6. Judgement in this case is not simply the engagements partner's 'take' on the issue overall. It will be sensitive to whether the audit is large, complex and performed by a geographically disparate team, or a smaller engagement in which the engagement partner is more closely involved on a day to day basis with the whole team.

Other major points we currently intend to submit to IAASB

7. The proposals as drafted are a considerable improvement on the original proposals and we applaud the IAASB's decision to re-expose this ISA.
8. Specifically, we are pleased that IAASB has decided to make it clearer that the work performed on other information during an audit is limited, and to include a high-level description of the limited procedure to be performed.

9. Overall, the proposals are less convoluted and easier to understand than the original proposals. IAASB has cleared up confusion and overlap between 'inconsistencies' and 'misstatements' and it has simplified the overly complex categorisation of different types of other information.
10. We have commented before on the fact that IAASB's objective is, in fact, a summary of requirements. We urge IAASB once again to consider the value of a different type of objective, which describes the ends rather than the means of the audit. The difference between objectives and high level requirements is a subtle one and the area does require some thought, but the objectives of all ISAs do seem to have been reduced to compliance with ISA requirements.
11. The proposed ISA remains commendably short

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you believe that the definition of 'Annual Report', taken together with the application material, is sufficiently robust to ensure consistent application of the ISA to appropriate documents, if adopted for use in the UK and Ireland? If not, what augmentation of the definition or application material would you suggest?

12. The definition of 'Annual Report', taken together with the application material is sufficiently robust to ensure consistent application of the ISA to appropriate documents if adopted for use in the UK and Ireland.

Q2: With respect to the list of example documents that may form part of the Annual Report are there any other documents that you believe should be given as examples of documents that may form part of the annual report? Similarly are there any of the example documents that you believe should not be in scope? It would be helpful if you would explain your reasoning in responding to this question.

13. With respect to the list of example documents that may form part of the Annual Report, there are no other documents we believe should be given as examples. We do not believe that any of the example documents should be excluded from scope.

Q3: Do you believe that, taken together, the proposed requirements of paragraphs 14 and 15 of revised ISA 720, discussed in paragraphs 14 and 19 above, are at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A to 'identify' inconsistencies with the financial statements and the auditor's knowledge, whilst reading the Other Information? Do you believe any augmentation of these proposed requirements or related application material would be necessary in adopting proposed revised ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?

14. Taken together, the proposed requirements of paragraphs 14 and 15 of revised ISA 720 are at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A, to 'identify' inconsistencies with the financial statements and the auditor's knowledge, whilst reading the Other Information. There is no need for any augmentation of these proposed requirements or related application material in adopting proposed revised ISA 720 in the UK and Ireland.

Q4: Do you believe, in particular, that the proposed requirement in paragraph 15 of ISA 720 to perform limited procedures to evaluate the consistency between items in the financial statements and the Other Information is appropriate, in particular, and do you believe any augmentation of the requirement or the illustrative procedures would be necessary in adopting proposed revised ISA 720 in the UK and Ireland?

- 15.** The proposed requirement in paragraph 15 of ISA 720 to perform limited procedures to evaluate the consistency between items in the financial statements and the Other Information is appropriate. There is no need for any augmentation of the requirement or the illustrative procedures in adopting proposed revised ISA 720 in the UK and Ireland.

Q5: Do you agree that the auditor's response under proposed revised ISA 720 when a material inconsistency appears to exist or Other Information appears to be materially misstated is appropriate and at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A? Do you believe any augmentation of these proposed requirements or related application material would be necessary in adopting proposed revised ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?

- 16.** The auditor's response under proposed revised ISA 720 when a material inconsistency appears to exist or Other Information appears to be materially misstated is appropriate and at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A. There is no need for any augmentation of these proposed requirements or related application material in adopting proposed revised ISA 720 in the UK and Ireland.

Q6: Do you consider that the reporting requirements under proposed revised ISA 720 are appropriate and at least equivalent to those under extant ISAs (UK and Ireland) 700 and 720 Section A? Do you believe any augmentation of the reporting requirements or application material in relation to Other Information (whether obtained before or after the date of the auditor's report and in the circumstances where there is no Other Information) would be necessary in adopting proposed revised ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?

- 17.** The reporting requirements under proposed revised ISA 720 are appropriate and at least equivalent to those under extant ISAs (UK and Ireland) 700 and 720 Section A. There is no need for any augmentation of the reporting requirements or application material in relation to Other Information in adopting proposed revised ISA 720 in the UK and Ireland.

Q7: Are you aware of any circumstances in which documents that are or should be within the scope of the ISA could be required to be issued after the date of the auditor's report, in the UK or Ireland? Do you consider that the requirement in paragraph 24 of ISA (UK and Ireland) 700 (see paragraph 29 above) should be retained in adopting proposed revised ISA 720 in the UK and Ireland?

- 18.** No, we are not aware of any circumstances in which documents that are or should be within the scope of the ISA could be required to be issued after the date of the auditor's report in the UK or Ireland. The requirement in paragraph 24 of ISA (UK and Ireland) 700 should be retained in adopting proposed revised ISA 720 in the UK and Ireland.

Q8: Do you consider that the actions described in paragraph 35 above are appropriate in the UK and Ireland? Are there any other actions that you consider should be included?

- 19.** To change the extant UK requirement prohibiting the signing and dating of audit reports earlier than the date on which all other information has been received would be, and be seen to be, a serious weakening of the UK position. While we acknowledge the pressures this creates for preparers, we think it would be impossible to justify this credibly to other stakeholder groups, particularly investors.