



RESPONSE TO IAASB ON ITS REVISED ISA 720 PROPOSALS

ICAEW welcomes the opportunity to comment on the consultation paper Proposed International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and *Proposed Consequential and Conforming Amendments to Other ISAs* published by IAASB in April 2014, a copy of which is available from this [link](#)

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MAJOR POINTS

1. The proposals as drafted are a considerable improvement on the original proposals and we applaud the IAASB's decision to re-expose this ISA.
2. 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.
3. 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.
4. With regard to inconsistencies between other information and the auditor's knowledge obtained during the course of the audit, we have outstanding concerns about perceptions of 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 easily be misinterpreted as permitting excessive discretion in the exercise of judgement. We also fear that some practitioners may always seek to rely on recollection, that some regulators may question auditors if they do not always perform a detailed file review, and that litigators may seek to construe the material as requiring all members of the audit team to read the entire annual report in all cases.
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. We therefore 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, and that the exercise of judgement involves consideration, during each audit, of relevant circumstances. The exercise of good judgement is not apparent when regulators assume that the guidance should be interpreted in the most demanding manner possible in all cases, any more than it is when auditors seek to do the bare minimum in all cases.
6. We have commented before on the fact that IAASB's objectives are, 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.
7. The proposed ISA remains commendably short

RESPONSES TO SPECIFIC QUESTIONS

Q1: Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

8. Objectives, scope and definitions: we approve of the changes IAASB has made to the definitions of inconsistencies and misstatements. The objectives are much clearer as a result of this. The scope of the annual report makes sense in the UK but it may cause problems in jurisdictions in which the notion of an annual report is not yet well-established.
9. We have no observations on the specific requirements.

Q2: Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

- 10.** We note in our major points above our concerns about perceptions regarding the potentially wide variations in process auditors will go through with respect to inconsistencies between other information and the auditor's knowledge obtained during the course of the audit. While no 'additional' work is required, some process is needed to make the comparison. Paragraphs A30 and A32 appear to indicate that the extent of auditor knowledge depends on whether auditors decide to rely on recollection alone, or on conversations with staff, or on file reviews. We appreciated that flexibility is needed to avoid generating significant additional work, which is not intended, but we fear that these paragraphs can easily be misinterpreted as permitting excessive discretion in the exercise of judgement. Some practitioners may always seek to rely on recollection, that some regulators may question auditors if they do not always perform a detailed file review, and that some litigators will seek to construe the material as a requirement for all members of the audit team to read the entire annual report in all cases.
- 11.** We do not think that the proposals are fatally flawed in this respect, but we encourage IAASB to make it clear in the material surrounding the issue of the final standard, that the exercise of judgement involves consideration, during each audit, of relevant circumstances. The exercise of good judgement is not apparent when regulators assume that the guidance should be interpreted in the most demanding manner possible in all cases, any more than it is when auditors seek to do the bare minimum in all cases. Doing (or not doing) anything 'in all cases', in word or deed, without thought, often demonstrates poor judgement.

Q3: Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

- 12.** The proposed reporting requirements are unobjectionable.

Q4: Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

- 13.** Jurisdictions that do not mandate the provision of other information before the audit report is signed do so for a variety of reasons. We agree with IAASB's conclusion to require auditors to read and consider information obtained after the audit report, but not to require auditors to identify this in the audit report (because they cannot, in some cases). We 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. 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 very little except in the most egregious cases, if anything appears to be amiss.