

18 July 2014

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Dear Sir,

**RESPONSE TO EXPOSURE DRAFT (ED) - INTERNATIONAL STANDARD ON
AUDITING (ISA) 720 (REVISED) THE AUDITOR'S RESPONSIBILITIES
RELATING TO OTHER INFORMATION**

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above ED issued by the International Auditing and Assurance Standards Board (IAASB) in April 2014.

To solicit meaningful feedback for this ED, ISCA has sought views from its members through a one-month public consultation process. Relevant comments have been incorporated into this response.

We are happy to note that the IAASB has limited the scope of *other information* to only information included in an entity's "annual report". Overall, we acknowledge that the ED is a much improved document compared to the earlier version. Notwithstanding that, we are of the view that the definition of *other information* needs to be clarified. As the nature of *other information* can vary widely, this raises the question as to whether it is appropriate for the auditors to assume any responsibilities over certain types of *other information*, especially those of a non-financial or prospective in nature, given that they are beyond the current scope of an audit of historical financial statements. There may be a need to review the scope of the ED in the future when Assurance guidance on the Integrated Reporting Framework is issued by the IAASB to ensure that the requirements of the Integrated Framework and the ED are aligned. In addition, we are concerned that any omission of *other information* may be

considered an “inconsistency” and this could potentially become very onerous for auditors. Lastly, the ED also requires the auditors to “read and consider” *other information* and to “remain alert” for other indications that the *other information* appears to be materially misstated. We feel that there is a lack of clarity to these terms and may lead to divergence in practice.

The details to our above comments are included in our responses to the specific questions in the ED as follows:

Question 1

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.

Two-tier scoping of *other information*

- 1.1 Paragraph A3 of the proposed ISA 720 (Revised) provides examples of reports, when issued separately, are not typically part of the combination of documents that comprise an annual report, and therefore, are not *other information* within the scope of the ED. However, if such reports are issued together with the annual reports, then the information therein will be within the scope of the standard and the auditors would be expected to read and consider such reports. This would create confusion over when such reports would be within scope or when they would be out of scope, especially for users. We had highlighted this issue in our initial comment letter on ED ISA 720 (2012).

Hence, we propose a two-tier scoping based on the placement and nature of *other information*.

- (a) Placement – We agree with the IAASB to scope *other information* to only those in the “annual report”.
- (b) Nature - In addition, we are also of the view that *other information* should be scoped based on its nature as elaborated in 1.2 below.

If the two-tier scoping is adopted, paragraph A3 should be clarified to state that if the information in those reports is included in the annual report itself or those reports are

issued together with the annual report as a separate document, they would still be excluded from the scope of the standard.

Definition of *other information*

- 1.2 According to paragraph 12(c) of the proposed ISA 720 (Revised), *other information* is defined as “financial and non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report”. We have the following concerns over the proposed definition of *other information*:

- (a) Non-financial *other information* excessively widens the scope of auditor’s responsibilities

The proposed definition of *other information* includes non-financial information which is too wide. Potentially, the review of such non-financial *other information* could require specialised knowledge which auditors might not possess. Auditors should not be expected to acquire such knowledge during the course of the audit to be able to assess whether there are material inconsistencies in such *other information* of a non-financial nature. For instance, descriptions of changes in legal or regulatory requirements such as environmental regulations with a material impact on the company’s future prospects, as stated in the Appendix of the ED, would be beyond the expertise of auditors.

Fundamentally, it is not the core responsibility of auditors to look at non-financial *other information*. The core expertise of auditors lies in financial information and their primary responsibility is to audit the historical financial statements of companies. Hence, it would unnecessarily widen the responsibility of auditors and cause them to deviate from their primary role as historical financial statement auditors if they are to read and consider non-financial *other information*. To improve the clarity of the scope of the standard, the IAASB should provide examples of non-financial *other information* which would be considered out of scope of the standard.

Moreover, auditors are not in a position to comment on *other information* relating to the operational aspects of companies which do not have any bearing on the financial statements of companies. On the contrary, management teams of companies are in the best position to do so, being intimately involved in the day-to-day running of the business activities of companies. This further reiterates our aforementioned point that auditors should not deviate from their primary role.

In addition to the above and given the current role of the auditors, there may be a need to review the scope of the ED in the future when Assurance guidance on the Integrated Reporting Framework is issued by the IAASB. According to the IAASB's Proposed Strategy for 2015 – 2019 and Work Program for 2015 – 2016, the IAASB is already planning to monitor the progress of the development of the Integrated Reporting Framework and the IAASB may need to consider revisiting the ED to ensure that the requirements of the Integrated Framework and the ED are aligned.

(b) Historical vis-à-vis prospective *other information*

Annual reports include information which is prospective in nature. As there is no explicit exclusion of such information from the definition of *other information*, it would appear that *other information* would cover such prospective information. We are of the view that this would unnecessarily widen the scope of the term *other information*. Historical *other information* could be verified with reference to past evidences whereas prospective *other information* which is forward looking would likely be based on subjective estimates and assumptions, and there would definitely be more challenges associated with assessing such information. For one, the professional judgment of management in the use of estimates and assumptions might differ from the auditors and it might be difficult for them to come to a consensus.

In addition, although auditors may be able to read and consider prospective information which they had reviewed during the audit process such as projected cash flows relating to impairment and going concern assessments, there would be an expectation gap if auditors are expected to read and consider prospective information which they have not looked at as part of the audit process. Extending the argument in 1.2(a) above on the primary role of auditors, the financial information being audited is historical in nature. Assessment of prospective information would deviate from the work of auditors which revolves around historical information. Hence, we propose that the definition of *other information* to be revised to include the term “historical” so as to scope out prospective information.

Linking “inconsistency” to concept of “omission”

- 1.3 We are concerned that the term “inconsistency” is linked to “misstatement of the *other information*” defined in paragraph 12(b) of the proposed ISA 720 (Revised). According to paragraph 16 of the proposed ISA 720 (Revised), where a material inconsistency exists, the auditor is to discuss with management and where necessary, perform

procedures to determine whether there is any material misstatement of the *other information* or financial statements. As the definition of “misstatement of the other information” includes the concept of “omission”, this essentially means that an omission of certain *other information* may constitute an “inconsistency”. This could potentially expose auditors to litigation if auditors did not highlight any omissions. There would be practical challenges as since there is no reporting framework for *other information*, it would not be possible to attain completeness of *other information*. Hence, we propose to remove the wordings “including because it omits or obscures information necessary for a proper understanding of a matter” from the definition of “misstatement of the other information” in paragraph 12(b).

Requirements addressing the auditor’s work effort

1.4 We would like to highlight the following:

- (a) Paragraph A23 of the proposed ISA 720 (Revised) only provides guidance on procedures to be performed for quantitative information. Since *other information* also includes information of a non-financial nature, we would like to propose that the IAASB include similar guidance for qualitative information.
- (b) Secondly, it is not clear what type of work would the requirements in paragraph 14 of the proposed standard, which calls for auditors to “read and consider” *other information*, entail. The same could be said for the use of the term “remain alert” in paragraph 14(c) which is judgmental and onerous for auditors. Different audit firms would have different interpretations and this might lead to divergence in practice. We urge the IAASB to consider alternative wordings which more clearly denote the work auditors need to perform in this area.
- (c) Lastly, paragraph 14(c) of the proposed standard appears to be a “catch-all” provision to cater to all possible situations. Together with paragraph 12(b) on which we have raised our concern over the inclusion of the concept of omission in 1.3 above, these two paragraphs have expanded the scope of auditors’ responsibilities tremendously which is, in our view, too wide. Hence, we propose to remove paragraph 14(c) on the grounds that it would have been covered under general ethical requirements for auditors not to be knowingly associated with misleading information.

Question 2

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

Please refer to our response in Question 1.

Question 3

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

Except for the definition of *other information* as explained in our response in Question 1, we agree that the proposed auditor reporting requirements would result in effective communication to users.

Question 4

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.

We agree with the conclusion since it would be practically challenging to identify all the *other information* in the auditor's report if it is only obtained after the date of the auditor's report.

Other Comments

Effective Date of ISA 720 (Revised)

We support the alignment of the effective date with that of the IAASB's Auditor Reporting project.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Deputy Head, Technical Standards Development and Advisory, or Ms Alice Tan, Manager, Technical Standards Development and Advisory, at ISCA via email at waigeat.kang@isca.org.sg or alice.tan@isca.org.sg respectively.

Yours faithfully,



Ms Lim Ai Leen

Executive Director

Technical Knowledge Centre and Quality Assurance