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545 Fifth Avenue, 14th Floor
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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 IN DOCUMENTS CONTAINING OR
ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND THE AUDITOR'S
REPORT THEREON**

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above ED issued by the International Auditing and Assurance Standards Board (IAASB) in November 2012.

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

Generally, we have concerns over a number of IAASB's recommendations in the ED. Notwithstanding that the ED advocates a principles-based approach to addressing other information, we are of the view that the lack of a proper framework to govern the scope, nature and extent of the other information contained in documents containing or accompanying audited financial statements would expand the scope of the auditor's responsibilities tremendously. The lack of a proper framework means that management's responsibilities over the other information are not clearly defined. We have a concern that the ED may lead to the unintended consequence that users of the audited financial statements may perceive that the auditors are responsible for the other information. In addition, as the

nature of the other information can vary widely to include non-financial information such as operational, corporate governance and corporate social responsibilities matters, this raises the question as to whether it is appropriate for the auditor to assume any responsibilities over these other information given that they are beyond the expertise and knowledge of a financial auditor. While IAASB's intent of narrowing the expectation gap and increasing the value and quality of audit is laudable, we are concerned that the expansion of scope of the auditor's responsibilities from the ED and the lack of clarity of key judgmental concepts such as material inconsistency and initial release could potentially become very onerous for the auditors. Lastly, we feel that the additional costs to be incurred arising from the expanded scope may not commensurate with the benefits that could be derived from the additional work proposed to be performed by the auditor under the ED.

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

Question 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?

Generally, we believe that the extant ISA 720 is serving the profession well. We do not support the expansion of the auditor's responsibilities with respect to other information for the following reasons:

(i) Lack of Proper Framework

Based on the ED, the auditor's responsibility is increased but there is no framework that governs the disclosure of other information and how such other information should be verified for consistency. The absence of a framework would translate into operational issues for the auditors as different auditors could have different views on or interpretations of the same document and there is no benchmark for the auditors to measure against. It would be practically challenging to expect the auditors to identify omissions and misstatements in other information on their own.

In addition, the ED does not provide for any guidance on the responsibilities of management in identifying and providing a complete list of other information to the auditors on a timely basis. Furthermore, it would also not seem reasonable for the auditors to shoulder more responsibilities on other information than management who are the providers or sources of such other information. This may also lead to the

unintended consequence of management being complacent and leaving the integrity of the other information to the auditors since they know the auditors will be checking on it. This would be very onerous for the auditors. IAASB should consider working with other organisations like International Organisation of Securities Commissions (IOSCO) to address issues relating to management’s responsibilities in areas such as identifying other information, preparing them and providing them to the auditors before the date of the auditor’s report.

Furthermore, different jurisdictions may have different requirements on what comprises other information. IAASB may want to incorporate an element in the standard to allow the respective jurisdictions to identify and determine the form and content of the other information.

(ii) Areas of Judgment and the Involvement of Experienced Audit Engagement Team Members

The definition of “inconsistency in other information” in paragraph 9(a)(i) of the ED contains the terms “unreasonable or inappropriate” and introduces the concepts of “material inconsistency” and “omission”. These are very subjective and could carry different meanings for different individuals. For example, it would be difficult for auditors to determine what would influence the economic decisions of the users in order for a piece of information to be material. In addition, when it comes to determining what information should be omitted or included in other information, this would again differ according to individuals. As a result, these areas of judgment may potentially lead to protracted debates between the auditors and management regarding the nature and extent of disclosures in the other information. This would add to the amount of time needed to complete the audit and result in an increase in the costs to both auditors and the entities.

Furthermore, given that the ED introduces many areas of subjectivity, a more experienced member of the audit engagement team will need to be more actively involved in checking the other information as the junior staff would not have the experience to deal with these areas. This will add to the audit costs.

(iii) Role and Expertise of the Auditor

IAASB provides four categories of other information in the application and explanatory material section of the ED, namely, quantitative financial information, qualitative financial information, directly reconcilable financial information and remaining other information.

For the non-quantitative and other categories of other information (including prospective information and operational information), we are of the view that auditors may not be the best persons to perform work on these areas as they may not have the necessary domain knowledge to do it effectively and efficiently. Moreover, there could be other information such as the Chairman's message in which some of the contents may be subjective or prospective in nature and hence, will be challenging for the auditors to assess for consistency. To fulfill their responsibilities under the expanded scope, auditors may have to consider the need to engage external experts to ensure that the non-quantitative information that they are required to "read and consider" are consistent with the audited financial statements and their understanding of the entity and its environment. This will increase the audit costs.

We agree, however, that the auditor's responsibilities insofar as it relates to quantitative financial information may be strengthened as auditors have the necessary expertise to perform the required work on this category of other information.

(iv) The Expectation Gap

One of the intended objectives of the ED is to narrow the expectation gap. However, expanding the scope of auditor's responsibilities beyond that of providing assurance on the financial statements may not achieve the objective.

Although the ED proposes to extend the scope of the auditor's responsibilities over the other information, the ED does not require the auditor to express an audit opinion or a review conclusion on the other information. As a result, users of financial statements may not see the value of the auditor's work and would not appreciate the increased amount of work performed by the auditors in this area. On the other hand, the overall business costs will increase for companies as companies will have to bear the additional audit costs arising from the expanded scope of the auditor's responsibilities.

Another possible cause of the expectation gap currently could be that users of financial statements do not know what the auditor's responsibilities are over the other information as the extant ISA 720 does not include an explicit statement regarding the auditor's responsibilities. To that end, we propose the inclusion of a statement in the extant ISA 720 regarding the auditor's responsibilities together with an explicit statement as to whether, at the time of signing the auditor's report, the auditor is aware of any unresolved material inconsistencies between the other information and the audited financial statements. Hence, we are of the view that the scope of auditor's responsibilities should not be expanded, but we propose the inclusion of an explicit

statement in the extant ISA 720 regarding the auditor's responsibilities as mentioned above.

In summary, we do not believe that extending the auditor's responsibilities with respect to the other information is in the public interest and that the benefits of extending the auditor's responsibilities with respect to other information would outweigh the costs. The primary role of an auditor is to perform a financial statement audit. As mentioned above, auditors may not be the best persons to look into other information as they may not have the necessary expertise. Accordingly, they may not be in the best position to safeguard the public interest in this area. In addition, as the auditor will not be expressing any audit opinion or a review conclusion on other information, we are not so sure that the public interest objective will be met with the proposed ED.

Question 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?

We do not 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 for the reasons as stated in our response to Questions 1 and 3.

In addition, the proposed standard excludes certain types of reports, such as those enumerated in paragraph A13 in the proposed standard, from the scope. If such reports are however included in the annual/integrated reports, then the information therein will be within the scope of the standard. Hence, in certain jurisdictions where such reports are required to be included in the annual report, the auditor will be expected to read and consider such reports. In other jurisdictions, where such reports are separately issued, there will be no responsibility on the auditor with regard to this information contained therein. This could create confusion over when such reports are within scope or when they are out of scope, especially for users.

Question 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 ISA 560?

The concept of initial release, which is different from the date the financial statements are issued as defined in ISA 560, may not be clear and understandable to the users. Users may also not be clear as to what the auditor's responsibilities are after the date of the auditor's report. Paragraph A5 of the ED states that "Documents issued by the entity in connection

with the initial release may not all be released to the users for whom the auditor's report is prepared on the same date as the initial release". This paragraph gave the following example:

"An entity may file some of the documents and the audited financial statements with a regulatory authority, a securities exchange or an official public repository, and subsequently distribute those documents along with additional documents (such as a Chairman's statement) to shareholders for the purposes of the annual meeting for the same reporting period. Such additional documents are within the scope of this SSA."

Accordingly, as there is no definitive cut-off date as to when additional documents would be considered in the scope of the proposed standard, this poses a practical challenge to determine which documents issued subsequent to the financial statements are considered to be issued in connection with the initial release of the financial statements. Following on from Question 1 above, should management be required to provide all other information to the auditor prior to the date of the auditor's report, the concept of initial release would then be irrelevant.

In addition, from the auditor's perspective, more clarity is needed in terms of the amount of work required in a subsequent events review. ISA 560 states that the auditor does not have any obligations to perform any audit procedures regarding the financial statements after the date of the auditor's report as well as after the financial statements are issued. However, paragraph A59 of the ED states that "The fact that the other information was not available at the date of the auditor's report does not obviate the need for the auditor to read and consider it... if such other information subsequently becomes available..." Accordingly, we believe that the requirements on the auditor relating to the other information after the date of the auditor's report are over and above what is expected of the auditor for the financial statement audit in terms of ISA 560.

The scope of the proposed standard has been widely broadened compared to the extant ISA 720 and we are concerned that there could be inconsistency and a lack of understanding in the application of the proposed standard, specifically relating to the timing of the auditor's procedures and when the responsibility of the auditor ends, which can be construed by both the auditor and the user as an open ended responsibility on the auditor.

Therefore, we believe it should be made clear in the standard that the auditor should not have any responsibility relating to other information if it is provided after the date of the auditor's report, other than his usual responsibility in accordance with ISA 560 as with the financial statement audit.

Question 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?

In Singapore, the statutory requirements pertaining to securities offering documents are included in the Securities and Futures Act and its relevant subsidiary legislations. We are of the view that it is more appropriate to scope out securities offering documents entirely to avoid duplication of work and potentially, reporting requirements. For example, there are many parties involved in an initial public offering (IPO) and if the related securities offering documents are within the scope of “other information” which the auditors have to read and consider in its entirety, the auditors may end up re-performing the same work which other relevant parties would have performed during the course of the IPO. The auditors may also end up assuming reporting requirements that have been imposed upon these other relevant parties by the national legislations.

Question 5

Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:

- (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?**

Firstly, we are of the view that the term “auditor” as defined in the Glossary of Terms is unclear. It is defined as the person or person conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. This could mean the audit assistant, the audit manager, the audit engagement partner or the entire audit team, and they have varying degrees of understanding of the entity and its environment. Hence, it is unclear who should acquire the understanding of the entity and its environment.

In addition, although the requirements and guidance in the ED 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, the term “consider” appears to carry a

different meaning in the ED compared to other existing ISAs. In the extant ISAs, “consider” connotes to reflect upon something whereas in the ED, “consider” could mean performing additional procedures, which is fundamentally different from the former. Clarification is required on what exactly this word means in the context of the proposed standard. Also for a group audit scenario, clarification is required as to whether the understanding would be from the group auditor’s perspective or from the component auditor’s perspective.

In view of the above ambiguities, this may lead to the unintended consequence where the auditors may be motivated to want to know less in terms of the entity and its environment.

(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?

It is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements. However, as mentioned in our response to Question 5(a) above, the meaning of the term “consider” may require further clarification.

Question 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?

The definition of “inconsistency in the other information” essentially includes requiring the auditor to determine if anything has been omitted from the other information. This is tantamount to asking the auditor to determine the completeness of the other information and may prove to be very challenging since they are not the source of the other information. In addition, the application of the definition of an inconsistency could be very subjective. Without a framework to assess the other information, it would be an onerous requirement for the auditor to determine if the other information is incorrect, unreasonable or inappropriate, including whether there are omissions or obscure information. This assessment cannot be based on the auditor’s personal benchmarks which would vary according to individuals. For “material inconsistency”, it is also challenging for auditors to assess it based on whether it can “reasonably be expected to influence the economic decisions of the users for whom the auditor’s report is prepared”. Auditors will not be able to determine what affects the economic decisions of a wide range of users.

Please also refer to our response in Question 1.

Question 7

Do respondents believe that users of auditors' reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (i) and (ii) 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?

We believe that users will encounter difficulties in understanding this concept as the definition of "inconsistency in the other information" and the term "auditor's understanding" are unclear, which may result in a different level of understanding to the user than to the auditor, given the auditor's limited expertise in certain other information. The user may therefore assume a higher level of assurance than what is actually given, further widening the expectation gap. Please also refer to our responses in Questions 1, 5(a) and 6.

Question 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:

(a) Do respondents believe 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?

Yes, we agree 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. However, the challenge lies in translating the principles into operationally practical procedures to be performed. IAASB should consider issuing practical guidance in this area.

(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?

We believe that the categories of other information in paragraph A37 and its guidance are appropriate. However, as per our response to Question 1, we believe that the extant ISA 720 serves well and there is no need to increase the scope of the auditor's responsibilities for all types of other information.

(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?

We believe that the expected work effort will increase significantly, especially on other information such as prospective forecasts, operational information, forward-looking statements etc. The proposed ED expects auditors to perform procedures over these types of information if they are within scope, which can be onerous. Often, auditors exercise the principle of prudence and may end up doing a lot more work over the other information beyond that required by the auditing standards.

The inclusion of a statement in the auditor's report may also cause users to have a misconception of what the auditors understand of the entity and its environment during the course of the audit. Users may assume that auditors understand all the information included in the "other information" during the audit.

We recommend that IAASB makes it clear that the auditor is not required to enhance his understanding of the entity and its environment beyond that required in ISA 315, nor involve experts in reading and considering the other information that is beyond the financial statement audit.

Please also refer to our response in Question 1.

Question 9

Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

We believe that the examples of quantitative and qualitative information are helpful in some respects. However, some of the examples listed under qualitative information relating to forward-looking information could be difficult to understand and auditors may face challenges in ascertaining the consistency of qualitative information. IAASB should consider providing practical guidance to illustrate the expectation on auditors over such information, and reconsider if the auditors have the expertise to "read and consider" such qualitative-type information. In addition to the abovementioned, we would like to reiterate that the fundamental issue is on the scope of other information and whether the auditors are the best persons to perform the work as prescribed in the ED as explained in our response to Question 1.

Question 10

Do respondents believe it is clear in the proposed requirements what the auditor's 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?

We believe it is clear in the proposed requirements what the auditor's 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. However, there would be practical issues for the auditor as the auditor would usually be provided with the other information only after the date of the auditor's report in our jurisdiction. As a result, the auditor would not be able to take the other information into consideration prior to the date of the auditor's report. It may be practically challenging to re-perform certain audit procedures if it is discovered only after the date of the auditor's report or after the issuance of the financial statements.

Furthermore, as mentioned in our response to Question 3, ISA 560 states that the auditor does not have any obligations to perform any audit procedures regarding the financial statements after the date of the auditor's report as well as after the financial statements are issued. IAASB should consider having an explicit statement to that effect in the proposed revised standard to clearly delineate the responsibilities of auditors when the other information is provided to the auditors after the date of the auditor's report, other than his usual responsibilities under ISA 560.

Question 11

With respect to reporting:

(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 users of the auditor's report?

The auditor is required to give a statement on whether there is material inconsistency in the other information and to describe such material inconsistency, if any, in the auditor's report. But at the same time, the auditor would also state in the same paragraph a statement that the auditor has not audited or reviewed the other information and accordingly does not express an opinion or a review conclusion on it. We are concerned that a reader may be confused with the above two statements which would widen the expectation gap. If material inconsistencies are identified and listed down in the auditor's report, it may also confuse users as to what they should do.

Please also refer to our responses in Questions 1, 5(a) and 6.

(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?

If the intent is to convey that there is no assurance being expressed with respect to the other information, the statement should be explicit in saying so instead of merely stating “no audit opinion or review conclusion”. As an alternative, the wordings in International Standard on Related Services (ISRS) 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, which states “we do not express any assurance”, may be considered.

As mentioned in our response in Question 1, as no assurance is expressed on the other information, users of financial statements may not see the value of the auditor’s work and would not appreciate the increased amount of work performed by the auditors. IAASB should further assess the needs of the majority of users of the financial statements and auditor’s reports, and determine if no assurance being expressed on other information is meaningful to them.

Question 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?

This question appears to contradict Question 11(b) which states that there is no assurance being expressed with respect to other information. Notwithstanding the above, if there is no assurance being expressed with respect to other information, users may not see any value in the conclusion and may even raise doubts over the validity of the purpose for auditors performing such work.

In our view, if stakeholders such as investors or shareholders require an assurance from the auditors with respect to other information, this should be a separate assurance engagement and should not constitute part of the financial statement audit. This is because the scope of such an engagement would be very much wider than that of a financial statement audit and different skill sets would be required compared to a financial statement audit. There must also be explicit acknowledgement by all parties that each of the parties, as well as the auditor assumes different responsibilities over the other information.

Other Comments

Reporting Considerations when Other Information is Provided to Auditors after the Date of the Auditor's Report

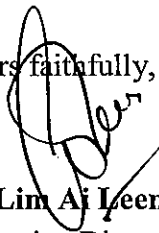
As it stands, the ED does not stipulate the reporting responsibilities on other information after the date of the auditor's report. Hence, users will not know whether any work has been performed after the date of the auditor's report. Furthermore, if material inconsistencies have been identified, there are no guidelines as to how auditors should communicate the inconsistencies to the users. IAASB should consider including this aspect in the standard.

Effective Date of ISA 720 (Revised)

We are uncertain of IAASB's plans with respect to the changes to ISA 720 (Revised) and the impending changes to be effected under the IAASB project - Improving the Auditor's Report. Given that the latter could affect the former, we are of the view that the issuance of ISA 720 (Revised) should not be earlier than that of the finalisation of the project on Improving the Auditor's Report.

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 ICPAS via email at waigeat.kang@icpas.org.sg or alice.tan@icpas.org.sg respectively.

Yours faithfully, ,



Ms Lim Ai Leen
Executive Director

Technical Knowledge Centre and Quality Assurance