

IAASB Exposure Draft (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

## **response to exposure draft**

18 February 2013

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 130218 SC0190

James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
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USA

18 February 2013

Dear James Gunn

**IAASB ED (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**

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comment**

CIPFA supports what we perceive as the intention of the proposed revisions, which seem to be directed both to adapting ISA 720 to changes in corporate reporting environments, and also to properly reflect the work which is likely to be done by technically capable auditors who are acting responsibly and ethically.

In addition to clarifying and maintaining the extant ISA 720, the ED seeks to extend the responsibilities. We can see the IAASB does not intend this to be a substantial extension, and the ISA proposals are clearly intended to work within the knowledge base gathered through the normal course of the audit. However, particularly in the public sector context, it may be difficult to do this without raising expectations that the auditor goes beyond this.

**Comments on Specific Matters**

Comments on the specific questions in the Exposure Draft are set out in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours sincerely

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## Responses to specific questions

### **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?**

As explained in the exposure draft, financial reporting evolves and changes, and this may affect the content and placement of material between the main financial statements, the notes or other parts of reporting. Some changes to ISAs may therefore be necessary simply to achieve the underlying objective of ISAs at the time they were written. To this extent CIPFA considers that the broadening of the scope of ISA 720, taken together with guidance on the reduced level of attention to be paid to less directly relevant information mainly serves to 'maintain' auditor responsibilities in the changing reporting environment. CIPFA considers that this is appropriate, and inasmuch as this is seen to be an 'increase' in responsibilities, we agree with this increase, and we do not expect there to be significant unintended consequences.

Other aspects of the exposure draft focus on the nature of the work done by the auditor, and reframe work previously expressed as consistency checking so that it is based on reading and consideration in light of the auditor's understanding. In itself we do not consider this reframing unreasonable, and some may think it better captures the original intention of ISA 720, based on perceptions of how such work is carried out by technically capable and ethically rigorous auditors. We do however have some reservations over possible unintended consequences of this reformulation. Particularly in the public sector audit context, where those carrying out the audit of financial statements may also carry out other work on a wide range of related documents.

### **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?**

CIPFA agrees that broadening the scope of the proposed ISA to include documents as proposed is appropriate.

In the context of UK public sector audits we would not envisage this creating significant additional work. There may however be issues in some jurisdictions, depending on the nature of the documents captured in the 'initial release'. Public sector auditors may have particular problems in connection with information which they have used or done some work on, without carrying out procedures with the same level of rigour as audit.

### **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?**

CIPFA considers that the explanation of initial release is sufficiently clear.

**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?**

CIPFA has no detailed comments to make on this matter. However, for the sake of clarity it might be better to exclude this very different topic from the scope of the standard.

**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?**

**(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?**

The objectives of the proposed ISA are appropriate, but there is some loss of clarity which arises principally because the term 'inconsistency' is overworked in a way which moves away from the natural and understandable use of this term in other ISAs.

In respect of the specific points above

(a) The phrase "in light of the auditor's understanding of the entity and its environment acquired during the audit" is sufficiently understandable. The requirements and guidance in the proposed ISA are helpful.

(b) Yes.

**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?**

No. While the content is appropriate, the terminology is confusing.

The use of the term 'inconsistency' as proposed in the draft standard is confusing and, unless the entirety of the phrase 'inconsistency in the other information' is taken as a specialised term without regard to the general use of the term, the usage appears to be incorrect.

The use of 'inconsistency' appears to differ from the use of the terms 'consistent', 'inconsistent' and 'inconsistency' in other ISAs and other engagement standards. The latter terms are used dozens of times in the IAASB handbook, and in all other cases they are framed either in terms of an explicit comparison (using the term 'with' or 'between') or a well understood implicit comparison, for example where consistent behaviour over time or within an organisation reflects a comparison between behaviours at different times or by different parties.

**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 (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?**

As noted in our response to question 6, we consider the use of the term 'inconsistency' to be confusing. However, in practice it is likely that specific descriptions of auditor observations on material issues will provide a degree of clarification.

**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?**

**(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?**

**(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?**

CIPFA agrees that a principles-based approach for determining the extent of the work is appropriate.

However, we have some concerns that while the intention is not to significantly extend the scope of the audit and the level of work effort, in practice work may increase. Particularly having regard to the issues facing auditors of public sector organisations, and the effect that this reformulation of work on 'other information' will have on auditor reporting and the stakeholder expectations of that reporting. These auditors have access to a wide range of information and the audit firm or audit agency may have a very extended understanding of the audited body through activities which are associated in the minds of stakeholders with their audit of financial statements. It may not be straightforward for the auditor signing off the report on the financial statements to marshal this wider knowledge and understanding.

The work effort may therefore be extended beyond that necessary for the auditor to express an opinion on the financial statements.

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

The examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful

**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?**

Yes.

**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?**

**(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?**

(a) As noted in our response to Questions 6 and 7, the use of 'inconsistency in the other information' may prove confusing.

(b) Yes. In practice some users may still read the proposed wording as a positive conclusion on the accuracy of other information, but it is difficult to altogether avoid this kind of misunderstanding.

**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?**

CIPFA is content with the proposed level of assurance with respect to other information.