



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

PROUD HOST:



29 March 2013

Mr. James Gunn
Technical Director, International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, 10017 USA

Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") PROPOSED INTERNATIONAL STANDARD ON AUDITING 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 Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Auditing and Assurance Standards Board ("IAASB") proposed 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 AASB considers the following matters are of particular importance for the IAASB's further consideration:

- **Scope**

We urge the IAASB to take a clear position on the matter of whether the proposed ISA will or will not change the scope of the audit. Whilst the IAASB states in the Background section of its Explanatory Memorandum, when discussing costs and benefits, that it believes the proposed ISA will help increase the value of the audit without changing its scope, other references elsewhere appear to contradict this position. The following are some such references, against which we have stated our views in italics:

- (i). "In extending auditor responsibilities, the IAASB has given consideration to likely costs and benefits of alternative approaches." *If the distinction is between the scope of the audit and the responsibilities of the auditor, we are of the view that such an argument is on weak ground, and does not serve the purposes of clarity, which could lead to inconsistent practices and poor analysis of the likely effects.*
- (ii). "The IAASB ... recognized that it would be necessary to put parameters around the expansion of scope... .", *This further contradicts the earlier position expressed, of not changing the scope of the audit.*

- (iii). “ ... an accompanying document would be in scope if it has a primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process.” *The introduction of the criterion on “understanding the financial reporting process” does represent an expansion of the scope of the audit, and further challenges the position of not changing the scope of the audit.*
- (iv). While the IAASB’s objective in encompassing other information in light of the auditor’s understanding of the entity and its environment acquired during the audit is rooted in promoting a change in behavior and is laudable, *this does expand the scope of the auditor’s responsibilities and challenges further the position of not changing the scope of the audit.*
- (v). The exposure draft scopes in other information in an accompanying document when such a document has a primary purpose of providing commentary to enhance users’ understanding of the audited financial statements and the financial reporting process. In these circumstances, the exposure draft sets the position out that all information within the document would be subject to the auditor’s responsibilities, taken in light of the auditor’s knowledge of the entity and its environment during the audit. *This, in our view, also expands the scope of the audit.*

We suggest that the IAASB considers the cumulative result of what the exposure draft would require by way of additional coverage and responsibilities, and re-assesses whether the effects would amount to an expansion the scope of the audit. It would be debatable whether these represent only additional responsibilities but not an overall increase in scope.

- **Accompanying documents**

The exposure draft states that an accompanying document would be in scope if it has a primary purpose of providing commentary to enhance users’ understanding of the audited financial statements and the financial reporting process.

However, accompanying documents and reports do not typically declare such a purpose even if the information included does enhance such understanding, frequently in addition to other objectives such as informational commentary by management on various aspects of operations, etc. For example, a governance statement may address the internal control environment, and interpretations may differ as to whether or not such a discussion addresses the financial reporting process as a ‘primary purpose’.

The exposure draft further states that, for any document determined to be in scope, all information within that document would be subject to the auditor’s responsibilities under the proposed ISA (even if the document contains certain information that does not meet this aforementioned primary purpose). The IAASB believes, however, that it will be necessary for the auditor to exercise professional judgement in focusing the auditor’s consideration of the other information, as not all the information may merit equal or additional consideration beyond reading the information.

The scoping in of all such other information would appear to be on an inconsistent basis from one circumstance to the next, depending only on the incidental question of what other information it has been included with that enhances users' understanding of the audited financial statements and the financial reporting process.

- **Securities offering documents**

Including securities offering documents in scope would represent an impracticable position, given the very different purposes that voluminous information is prepared for in such situations. To include such documents in scope simply based on whether the audited financial statements have or have not been initially released prior, is too simplistic an approach, further considering that such information is frequently subject to extensive due diligence processes by a range of parties. Placing responsibilities squarely on the auditor by scoping in the full weight of the offering documents into the standard would be an entirely disproportionate. Securities offering documents should therefore be scoped out.

- **Accompanying information on electronic sites containing audited financial statements and the auditor's report**

We have some concerns on how the proposed standard will apply in the event that the initial release of the audited financial statements and the auditor's report thereon are published on the entity's website. Accompanying documents issued by management on the entity's website may be regularly updated or replaced, and this creates an open ended obligation for the auditors to consider such other information. We recommend that the IAASB provides guidance on auditor's responsibilities in this regard.

Our comments to the specific questions raised in the exposure draft are as follows:

Specific Comments:

Q1. 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?

We agree that there is a need to strengthen the auditor's responsibilities with respect to other information, and that this is in the public interest. The corporate reporting environment has evolved considerably in recent years. In this regard, auditor's responsibilities would also have to evolve to respond to such development. The exposure draft states that IAASB has given consideration to the costs and benefits of the additional responsibilities. However, this consideration is not supported in the exposure draft and the IAASB should accordingly consider publishing its assessment of the costs and benefits associated with the positions it has taken in this matter.

We also recommend that the IAASB considers testing the application of the proposed revised standard to ascertain that the costs indeed do not outweigh the benefits before finalising the proposed revised standard.

Specific Comments (*continued*):

Q2. 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 support this in principle subject to adequate clarification on the matters stated elsewhere in our responses herein.

As stated in our covering comments accompanying these specific responses, we have concerns about whether the identification of such information will be consistent in practice.

Q3. 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?

Yes, we believe the concept of initial release is clear and understandable, including that it may differ from the date the financial statements are issued as defined in ISA 560.

Q4. 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?

We are of the view that including a securities offering document in scope represents an impracticable position, given the very different purposes that voluminous information is typically prepared for in such situations. To include such documents in scope simply based on whether the audited financial statements have or have not been initially released prior, is too simplistic an approach. Further, such other information is frequently subject to extensive due diligence processes by a range of parties. Placing responsibilities squarely on the auditor by scoping in the full weight of the offering documents into ISA 720 would be entirely disproportionate.

We also believe that these documents are generally subject to specific national regulatory requirements and by addressing them in the proposed revised standard, may duplicate or conflict with responsibilities placed on other parties and with procedures the auditor may otherwise be required to perform pursuant to those national requirements. Securities offering documents should therefore be scoped out.

Specific Comments (*continued*):

Q5. 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?

- 5a. The phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor. However, taken together with the expanded scope through the inclusion of ‘accompanying documents’, it expands significantly the audit responsibilities of the auditor.

The exposure draft states that, for any document determined to be in scope, all information within that document would be subject to the auditor’s responsibilities under the proposed ISA (even if the document contains certain information that does not meet this ‘primary purpose’ criterion).

These factors could result in significant scope increase that would compromise the basis referred to as “in light of the auditor’s understanding of the entity and its environment acquired during the audit”.

- 5b. We believe the auditor’s responsibilities are clear on this matter.

Q6. 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 concept would be clearer if it is re-emphasized that the notion of omission is to be within the auditor’s understanding of the entity and its environment.

Q7. 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?

Users would be expected to be alert to material inconsistencies whether or not these relate to the audited financial statements. It is with reference to the “unreasonable” and “inappropriate” criteria that challenges may occur. However, these are not unique to the current discussion only, and so users would require to be properly informed of the entire scope of the ISA if their reliance is to be tested.

Specific Comments (*continued*):

Q8. 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?

8a. We support the principles-based approach supported by comprehensive application material to guide the work effort of auditors.

8b. The categories are appropriate. The guidance on the nature and extent of the work effort for each category are appropriate, subject to our other comments in this response letter.

8c. As stated elsewhere in this response, we are of the view that the scope of the audit does appear to be extended, and accordingly also the work effort.

Q9. 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 in the Appendix are helpful.

Q10. 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?

The proposed requirements are clear. We also agree with the proposed links made in the application material to ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and ISA 560, *Subsequent Events* which contain appropriate guidance which addresses implications of this circumstance depending on the timing the other information is obtained.

Q11. 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?

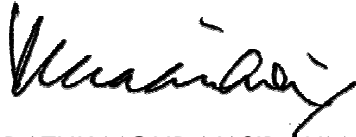
Specific Comments (*continued*):

- 11a. While the report would be clear to auditors, there is no certainty it will be clear to other parties, particularly the terminology "material inconsistencies". We recommend that the IAASB considers issuing further educational material in the form of publications to help raise the level of awareness amongst users of the auditor's report in respect of this matter.
- 11b. We believe this is clear when read in the context of the entire report.

Q12. 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?

Subject to other comments made in this response, yes, the level of assurance is appropriate.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS



DATUK MOHD NASIR AHMAD
President