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Dear Ms Jackson

**FRC Invitation to Comment on IAASB Exposure Draft (April 2014) – ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information***

Deloitte LLP is pleased to respond to the FRC's request for comments on the IAASB's April 2014 exposure draft. Our responses to the detailed questions asked by the FRC are set out in the Appendix to this letter. As with other recent IAASB exposure drafts, Deloitte Touche Tohmatsu Limited (DTTL) will be responding on behalf of the network and its member firms. We will send you a copy of this response when it is complete.

The IAASB's proposed revision to ISA 720 (Revised) is timely, given the increasing complexity of annual reporting. It will provide important operational requirements and guidance to support the existing requirement of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics* that an auditor should not knowingly be associated with information believed to contain a materially false or misleading statement. This ethical requirement is included in the ethical codes of each of the UK Recognised Supervisory Bodies.

We understand that the FRC's intention is to adopt the IAASB's revised standard in place of the extant ISA (UK and Ireland) 720 Section A (Revised October 2012), potentially supplemented with additional UK requirements and application material. We would support this approach as it will assist in global consistency. We have two further suggestions for implementation of the IAASB's proposed standard in the UK and Ireland, explained below.

## *Opportunity to simplify standards whilst improving audit quality*

It would be preferable to merge the requirements of ISA (UK and Ireland) 720 Section B into a combined standard. Section B was written solely in the context of directors' reports of UK and Irish Companies Act companies. Accordingly:

- it makes no reference to the new UK strategic report. It also asserts that much of the information in the directors' report will be extracted from or directly derived from the financial statements. This has long since ceased to be the case for all but the smallest companies, and gives the misleading impression that most of the auditor's responsibility is 'ticking and tying', rather than considering whether the information is consistent with the auditor's knowledge;
- it is confusing to auditors and other stakeholders that both Sections A and B apply to the directors' report (and now the Strategic Report); and
- it does not deal with the increasing range of other types of entity where there is a legal requirement to report on consistency.

Taking this step would avoid the need to make corresponding amendments to Section B and improve the quality of work supporting the statutory opinion on consistency.

## *Timing of other information*

In our response to Q7, we support retention for the time being of the existing UK position that the auditor should not issue their report until all of the other information has been approved by those charged with governance and the auditor has considered all necessary available evidence. This has contributed to the quality of annual reporting in the UK and Ireland. The FRC needs to keep this position under review in light of some of their other projects and proposals; in particular the Financial Reporting Lab's project on electronic reporting. For example, if corporate governance information were to be placed on the website and only updated as and when necessary, there may be a question as to which version the auditor had read when they issued their auditor's report, and what (if anything) the auditor should be required to do if the audited entity changes that information subsequent to the date of the auditor's report on the financial statements. It may be helpful to move the material in the Appendix to extant Section A into a separate Bulletin so it can be updated as electronic reporting evolves, rather than requiring reopening of the full ISA (UK and Ireland).

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Richard Gillin on 020 7007 0202 or [rgillin@deloitte.co.uk](mailto:rgillin@deloitte.co.uk).

Yours sincerely

A handwritten signature in black ink that reads "Deloitte LLP". The script is cursive and fluid, with the 'D' being particularly large and stylized.

Deloitte LLP

## Appendix

### Responses to the FRC's questions

**Q1 Do you believe that the definition of “Annual Report”, taken together with the application material, is sufficiently robust to ensure consistent application of the ISA to appropriate documents, if adopted for use in the UK and Ireland? If not, what augmentation of the definition or application material would you suggest?**

Yes. We cannot envisage a situation where the IAASB wording would lead to a narrower scope for the auditor's “read” responsibility than extant Section A.

**Q2 With respect to the list of example documents that may form part of the Annual Report are there any other documents that you believe should be given as examples of documents that may form part of the annual report? Similarly, are there any of the example documents that you believe should not be in scope? It would be helpful if you would explain your reasoning in responding to this question.**

An additional UK “plus” should be added to A1: “any directors’ remuneration report, including both the audited and unaudited sections”. This would reinforce the fact that the auditor needs to read the unaudited sections of the remuneration report (for example, details of remuneration policy) for consistency with the financial statements and their own knowledge; the audited section has clearly been subject to audit procedures.

**Q3 Do you believe that, taken together, the proposed requirements of paragraphs 14 and 15 of revised ISA 720, discussed in paragraphs 14 and 19 [of the FRC Invitation to Comment], are at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A to “identify” inconsistencies with the financial statements and the auditor’s knowledge, whilst reading the Other Information? Do you believe any augmentation of these proposed requirements or related application material would be necessary in adopting proposed revised ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?**

We believe that paragraphs 14 and 15 of revised ISA 720 are at least equivalent to the corresponding requirements in Section A. No additional augmentation is necessary beyond preserving the existing UK material in extant A4-2 (cross-referring to the corporate governance material in ISA (UK and Ireland) 700) and the material in extant A11-2 and A11-3 (legal requirements).

**Q4 Do you believe, in particular, that the proposed requirement in paragraph 15 of ISA 720 to perform limited procedures to evaluate the consistency between items in the financial statements and the Other Information is appropriate, in particular, and do you believe any augmentation of the requirement or the illustrative procedures would be necessary in adopting proposed revised ISA 720 in the UK and Ireland?**

We believe that paragraph 15 is appropriate and does not require augmentation in the UK and Ireland. Whilst not explicitly required by extant Section A, we expect that auditors already perform such procedures in practice.

**Q5 Do you agree that the auditor’s response under proposed revised ISA 720 when a material inconsistency appears to exist or Other Information appears to be materially misstated is**

**appropriate and at least equivalent to the corresponding requirements in ISA (UK and Ireland) 720 Section A? Do you believe any augmentation of these proposed requirements or related requirements would be necessary in adopting proposed revised ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?**

Yes. We agree that the response under the proposed standard is appropriate and at least equal to that of extant Section A. Paragraph 25 of the FRC Invitation to Comment explains that it may, in some cases, go further. We agree, although again we note that auditors are already typically responding in this fashion.

**Q6 Do you consider that the reporting requirements under proposed revised ISA 720 are appropriate and at least equivalent to those under extant ISAs (UK and Ireland) 700 and 720 Section A? Do you believe any augmentation of the reporting requirements or application material in relation to Other Information (whether obtained before or after the date of the auditor's report and in the circumstances where there is no Other Information) would be necessary in adopting proposed ISA 720 in the UK and Ireland and, if so, please indicate what augmentation and why?**

We agree with the proposed ISA reporting requirements subject to the points set out below:

- Paragraph 21(b) of the proposed ISA should say “Where appropriate, a statement that the auditor has not audited or performed assurance procedures on...” IAASB application material would make clear that in some cases laws, regulations or standards may require an audit or assurance of some or all of the other annual report information, or an audited entity may have had such information assured voluntarily; a UK “plus” could then indicate that the audited part of the directors’ remuneration report would be one example of such material. This would avoid the nonsensical situation of paragraph 21 requiring that the auditors’ report explains that the other information has not been audited, with an audit opinion on the directors’ remuneration report appearing a few lines away in the audit report.
- Paragraph 21(d) of the proposed ISA might usefully allow the auditor to express a positive conclusion instead, where required by law or regulation. Otherwise, the auditor of a UK company (where the only Other Information is the directors’ report and statutory report) would be required to give both the reporting required by proposed paragraph 21 and the statutory opinion required by s496 Companies Act 2006; two opinions on the same thing is confusing to a reader. Arguably paragraph 23 might deal with this situation, but could still lead to a cluttered report where there is other information outside the scope of s496, for example the unaudited parts of a directors’ remuneration report.

In implementing the revised standard in the UK, the FRC should also remove the “read” sentences from paragraph 16(c) of ISA (UK and Ireland) 700 which would otherwise require duplication between that description of scope and the reporting required by proposed paragraph 21.

**Q7 Are you aware of any circumstances in which documents that are or should be within the scope of the ISA could be required to be issued after the date of the auditor's report, in the UK or Ireland? Do you consider that the requirement in paragraph 24 of ISA (UK and Ireland) 700 (see paragraph 29 [of the FRC Invitation to Comment]) should be retained in adopting proposed revised ISA 720 in the UK and Ireland?**

We are not aware of any such circumstances at present. We support retention of the existing paragraph 24 of ISA (UK and Ireland) 700 for the time being. However, for the reasons set out in our covering letter, we suggest that the FRC keeps this position under review.

**Q8 Do you consider that the actions described in paragraph 35 are appropriate in the UK and Ireland? Are there any other actions that you consider should be included?**

The situation in paragraph 35 of the Invitation to Comment cannot occur in the UK if the requirement of paragraph 24 of existing ISA (UK and Ireland) 700 is retained (see Q7 above). Nevertheless, were the situation to arise elsewhere, we agree with the actions in paragraph 35 and do not believe that any additional actions are needed.

**Additional comments on the IAASB's exposure not covered by the FRC's questions**

- We suggest proposed paragraph 8 is merged with proposed paragraph 2 as they say almost the same thing.
- Although not directly relevant in the UK and Ireland (assuming that paragraph 24 of ISA (UK and Ireland) 700 is retained), paragraph 290.30 of the IESBA *Code of Ethics* may need amending to clarify for how long the auditor must remain independent. At present it only requires independence until the final audit report is issued; if other information is anticipated later, the auditor may need to remain independent longer.
- It is not clear whether paragraph A5 and the Appendix are helpful, given that *all* of the information accompanying the financial statements must be considered for material inconsistency or misstatement.