The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon

An exposure draft of a proposed revision of International Standard on Auditing 720

Comments from ACCA to the International Auditing and Assurance Standards Board
14 March 2013

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ACCA welcomes the opportunity to comment on the proposals issued by the International Auditing and Assurance Standards Board (the IAASB). The ACCA Global Forum for Audit and Assurance has considered the matters raised and the views of its members are represented in the following.

OVERALL COMMENTS

We support the proposed revision of International Standard on Auditing 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (proposed ISA 720). The project is a timely recognition of the shifts in corporate reporting towards, for example qualitative disclosures, and the calls, particularly from investors, for more informative reporting by auditors.

We agree with extending the scope of information to be read and considered by the auditor to include all the information that is reasonably expected to be capable of influencing the views of intended users of the financial statements. However, if users demand assurance on such information, proposed ISA 720 does not meet their needs. Instead, information must either form part of the financial statements and be audited, or be subject to a separate assurance engagement. This is a matter for law and regulation, or commercial contract.

A benefit from the auditor reading and considering other information is the signal given to management and those charged with governance that such information is important to users of the financial statements. The audit promotes high quality financial reporting and proposed ISA 720 has the potential to increase the audit's beneficial impact on corporate reporting more generally. We suggest that, as well as heightening the role of the auditor, proposed ISA 720 should emphasise the role and responsibilities of management and those charged with governance in relation to other information.

Increased emphasis on other information will potentially add to the time pressure at the completion of the audit making it doubly important that all parties are adequately prepared. There should be, for example, changes to ISA 220 *Agreeing the Terms of the Audit* to recognise that the preconditions for an audit extend to other information.

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There is a difference between the standard setter's and auditor's theoretical understanding of assurance, and the capability of users to derive their own assurance from factors such as the involvement of an auditor in reading and considering other information. While knowledgeable users will be aware that paragraph 110.2 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the IESBA Code) imposes an obligation on professional accountants not to be knowingly associated with inappropriate information, many users will not. For such users, a report that explains the implications of the IESBA Code may increase the value to them of the audit and help to combat any expectations gap relating to other information. We discuss this further in our answer to question 11 below.

In our specific comments below, we disagree with several important aspects of proposed ISA 720. In view of this, we cannot support the revision of ISA 720 in the manner now proposed.

Our key concerns are:

- Determining scope by reference to documents – not only is the concept of a document increasingly irrelevant in the modern world, but information of which the auditor has no relevant understanding is brought within the scope of proposed ISA 720
- Reporting misstatement as an inconsistency with the auditor's understanding of the entity and its environment acquired during the course of the audit – this usage is counter to the dictionary definition of inconsistency. In addition, we do not believe that users will be able to understand the auditor's knowledge, nor could it be used (in a separate engagement) as criteria for assurance
- Proposed extension to the concept of materiality – it is not appropriate for an auditing standard to define a fundamental concept for corporate reporting

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SPECIFIC COMMENTS

In this section of our response, we answer the 12 questions set out in the exposure draft section *Significant Matters and Requests for Specific Comments*.

SCOPE OF THE PROPOSED ISA

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?

We agree that that there is a need to strengthen the auditor's responsibilities with respect to other information. This increases the value of the audit and so is in the public interest. Management, those charged with governance and senior members of the audit engagement team may have to overcome additional pressures at the time of finalisation of the financial statements and audit. Nevertheless, in our view, the costs of strengthening are outweighed by the perceived benefits.

Proposed ISA 720 intends to strengthen the auditor's responsibilities with respect to other information through extending the boundaries of the information examined, strengthening the auditor's focus on problems in other information, and improving auditor reporting. We have significant concerns in relation to the proposals in each of these areas. In this response, therefore, we suggest alternative ways in which ISA 720 should be modernised.

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 agree that the scope of proposed ISA 720 should be broadened, because intended users are increasingly likely to encounter other information outside the annual report.

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We do not agree with extending the scope by reference to documents. The traditional concept of 'document' is no longer relevant because information is increasingly transmitted in other ways. In our view, proposed ISA 720 should encompass all information that is intended to enhance the users' understanding of the financial statements.[1]

International Standards of Auditing do not define the word 'document', so it takes its dictionary meaning. While a document, in the wider sense, can encompass any information transmitted by any medium, the term is used in ISAs to refer to something in writing (which may be in physical or electronic form). Moreover, in ISAs, the term is used for aggregations of information such as an annual report. [2]

The use of the traditional concept of 'document' to determine the scope of proposed ISA 720 results in a problem of auditor association with other information that extends beyond the auditor's understanding of the entity and its environment. We do not believe that such information should be within the scope of ISA 720 and we are concerned that an expectations gap will be created if it is.

We suggest that, rather than employ definitions and artificial criteria relating to documents, the inclusion or non-inclusion of information in the scope of proposed ISA 720 should be a matter of auditor judgement, appropriately supported by guidance to promote consistency. The auditor will have regard to the fact that management (or those charged with governance) has the primary responsibility for deciding what information is intended to enhance the users' understanding of the financial statements, reconciling such information to the financial statements where relevant and providing appropriate representations to the auditor, for example that management has communicated to the auditor all such information it intends to release.

We welcome the proposed requirements for the auditor to discuss with management which information ('documents') is within the scope of the ISA (paragraph 10) and to report what has been read and considered (paragraph 16(b)).

[1] Should the scope be determined by reference to the nature of the information, it would be necessary to recognise that in the language employed. Proposed ISA 720 expands on the language of extant ISA 720 by using 'read and consider' instead of 'read', in order to make consideration explicit. If the scope of other information is determined as we suggest, the language might be altered to 'consider', as reading, hearing or viewing is implicit in that.
[2] From the Glossary: *Annual report*—A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon.

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Should our recommendations above not be accepted, we make the following comments concerning broadening the scope by reference to documents.

The scope section of proposed ISA 720 has to be read with the definitions and it is quite difficult, therefore, to grasp what should, or should not, be in scope.

The proposed criteria for a document to be in scope require that it has 'a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process.' We believe that this is unworkable as: (1) a document generally has a primary purpose in connection with its subject matter, not the financial statements, thus no accompanying documents will satisfy this criterion; and (2) 'the financial reporting process' referred to in the criteria, is undefined and open to wide interpretation (but certainly one interpretation is that it excludes corporate governance as that has a function of oversight). This will give rise to inconsistent interpretation.

If the determination of scope is by reference to documents, we do not support the use of artificial definitions and criteria. Instead, the inclusion or non-inclusion of accompanying documents should be a matter of auditor judgement, appropriately supported by guidance to promote consistency.

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?

In our answer to question 2 above, we explain that we do not agree with extending the scope of proposed ISA 720 by reference to documents. The alternative approach that we suggest would remove the need for the concept of initial release because the purpose of presenting information to intended users, rather than the date it is published, determines whether it is in, or out of, scope.

Should this suggestion not be accepted, we make the following comments on the concept of initial release.

We have no difficulty understanding the concept of initial release. It is also clear that the initial release may be different from the date the financial statements are issued, as defined in ISA 560 *Subsequent Events*. This raises a concern that the concept undermines the approach in ISA 560, for example should ISA 560 now also deal separately with facts that become known to the auditor after the date the financial statements have been issued but before the date of the initial release?

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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?

Should our suggestions in response to question 2 above, concerning broadening the scope by reference the purpose of information, not be accepted, we make the following comments in relation to securities offering documents.

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?

We agree that, in the limited circumstances referred to by question 4, a securities offering document should be in scope. We do not agree, however, with the proposed mechanism of general exclusion of offer documents overridden by consideration of specific circumstances. Such a mechanism would heighten the danger of excluding a document that should be in scope.

Instead, the entity and the auditor should always consider the specific circumstances, as we propose for other documents, to decide whether the document is in scope.

We further suggest, in relation to paragraph 3 of proposed ISA 720, that there is no need to scope out 'preliminary announcements of financial information' as, under the general criteria, the position of such documents is clear. Paragraph 3 of proposed ISA 720 should be deleted.

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?

If other information in a securities offering document is scoped into proposed ISA 720, there is likelihood that, in some jurisdictions, the work on other information would be duplicating or conflicting with procedures the auditor is required to perform to report in relation to the offering.

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We also draw attention to the general case, not necessarily linked to a public offering, where the auditor also carries out a reasonable or limited assurance engagement in relation to one or more aspects of other information. Users may not understand the relationship between the auditor's work on a public offering document, or an assurance engagement, and the requirements underlying the statement in relation to other information in the auditor's report. We suggest, therefore, that the Application Material should provide guidance on wording the auditor's report in such circumstances.

OBJECTIVES

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?

(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?

As we explain in our answer to question 1 above, we have significant concerns about proposed ISA 720. Because of this, we do not consider that the objectives are appropriate.

In relation to the objectives set out in paragraph 8 of proposed ISA 720, we have concerns about the matters mentioned in parts (a) and (b) of this question and the narrow focus of the objectives on responding and reporting.

(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?

The above is understandable for the auditor, as the auditor will reach such an understanding. It is not fruitful to consider whether the understanding could be defined and measured because users will not have access to the specific understanding. Neither can users, who are not also experienced auditors, be expected to develop a general appreciation of such an understanding.

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Under IAASB engagement standards, 'the auditor's understanding of the entity and its environment acquired during the audit' would not be suitable criteria for an assurance engagement because it is not available to intended users. This argues strongly that it is not appropriate for 'inconsistency' to be reported in relation to it.

We caution that any intention to use the phrase to signal that the auditor is only informed by procedures considered necessary to form an opinion on the financial statements is neither necessary nor desirable. Such a restriction is precluded as ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* contains a requirement that the engagement partner shall consider whether information obtained from other engagements for the entity is relevant to identifying risks of material misstatement.

(a) (continued) 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?

We believe that the requirements and guidance as stated in proposed ISA 720 help auditors in the manner indicated in the question.

(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?

Under extant ISA 720, the auditor reads the other information primarily to increase the quality of the audit by taking into account the matters dealt with in the annual report but not in the financial statements. Users receive a clear message that other information is consistent with the financial statements.

Because the focus is changed to the auditor's understanding, we are not convinced that proposed ISA 720 has retained clarity over what will be a primary concern of intended users. Elsewhere in this response, we suggest changes to proposed ISA 720 to alter the nature of the engagement and hence address this concern.

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The narrow focus of the objectives on responding and reporting

The objectives seemingly draw on extant ISA 720, in which the objective deals only with making an appropriate response:

> 'The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.'[3]

We do not agree with such a narrow focus in the context of the proposed revision, as more needs to be done to reflect the increased emphasis on the auditor's responsibility with respect to other information.

We believe it is more appropriate to adopt a form of objectives similar to that in ISA 580 *Written Representations*. In such a format, the objectives cover not only responding, but also the actions of the auditor implicit in being able to respond. For example:

> 'The objectives of the auditor are:
> (a) To determine the other information that is within the scope of this ISA;
> (b) To obtain, read and consider such other information to assess it for the purpose below;
> (c) To respond appropriately when other information is identified that:
>   (i) could undermine the credibility of the financial statements and the auditor's report, or
>   (ii) is materially misstated; and
> (d) To report in accordance with this ISA.'

[3] Paragraph 4 of ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.*

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DEFINITION OF AN INCONSISTENCY IN OTHER INFORMATION

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?

We do not agree with these definitions.

Inconsistency

Extant ISA 720 contains a definition of the term 'inconsistency' that, in retrospect, it should not have done. The term was defined to apply only in relation to 'other information'. This ignored the fact that there were many other ISAs where the term was used with its dictionary meaning. We note that it is proposed to correct this by defining instead 'inconsistency in the other information'. We do not agree with this creation of an artificial (and hence difficult to translate) compound term. Instead, the dictionary meaning of inconsistency should be used throughout ISAs.

It would appear that the word inconsistency is being used because proposed ISA 720 introduces the concept of 'consistency with the auditor's understanding of the entity and its environment acquired during the course of the audit'. For the reasons set out in our answers to question 5(a), in relation to auditors, and question 7, in relation to users, we do not agree with the use of this concept. Eliminating it would remove the need to define 'inconsistency in the other information'.

A material inconsistency in the other information

We do not agree with the materiality threshold set out in paragraph 9 of propose ISA 720, nor with the related considerations specific to public sector entities in paragraph A3.

The concept of materiality, as discussed in ISA 320 *Materiality in Planning and Performing an Audit,* is rooted in the financial reporting framework and is well developed and understood, albeit continuing to attract debate, particularly in relation to materiality for disclosures. Indeed, paragraph 4 of ISA 320 informs auditors that it is reasonable for them to assume that intended users of the financial statements will appreciate that auditing involves levels of materiality.

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Definitions of materiality normally refer to consideration of the impact on economic decisions of users taken on the basis of the financial statements as a whole. Proposed ISA 720 extends this to 'on the basis of the audited financial statements and the other information as a whole'. While this may be thought to be logical, it is not the role of a standard setter for auditing to establish definitions for corporate reporting. This is particularly the case as the development of the concept of materiality in non-financial reporting and integrated reporting is at an early stage.

It is arguable that to operationalise such a definition, the auditor implicitly has to form a view (on behalf of the intended users) as to whether, in the absence of the inconsistency in question, taken at face value, the audited financial statements and the other information as a whole are 'fairly stated' (or equivalent). We believe this is not reliably achievable and suggest instead that it would be better to avoid the creation of this new definition.

Instead, we are of the view that the normal materiality concept employed in auditing should be applied and that instances of identified misstatement should be viewed in relation to their significance to a user of the financial statements.

In paragraph A3, for the public sector there is a similar proposed extension of the materiality concept and we do not agree with it for the same reasons as advanced above. In addition, the paragraph should either reflect or refer to the more complete treatment of materiality for public sector entities in paragraph A2 of ISA 320.

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 (a) and (b) of the definition,[4] 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 do not believe that users will understand this approach. The artificial construct of expressing inaccuracy (or inappropriate presentation) as an inconsistency between other information and the (to the user) unknown understanding of the auditor is indirect and imprecise. If the intention is to inform users about inaccuracy in other information, it would be better to use that word.

[4] As stated on page 10 of the explanatory memorandum.

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Where the auditor states that material inconsistencies have not been identified, intended users have no indication that inconsistency includes inaccuracy or inappropriate presentation. Only if the auditor reports an 'inconsistency', might the facts reported allow users to appreciate whether and to what extent there is inaccuracy or inappropriate presentation.

Elsewhere in this response, we express our concerns about the components of the approach from which this form of reporting results.

NATURE AND EXTENT OF WORK EFFORT

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?

(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?

ACCA supports a principles-based approach. The Application Material encourages auditors to categorise information in certain ways, including the creation of a category of 'directly reconcilable'. This introduces extra decisions and procedures and so may not be efficient. Such an approach is also going too far in the direction of encouraging one methodology over another and away from a principles-based approach.

Rather than categorise, it would be better to indicate how characteristics possessed by information determine the work that could, or should, be done.

The category of 'directly reconcilable' is unnecessary as there is always a range of difficulty in reconciliation and it should be a matter of auditor judgement as to how much work effort is justified in the context of a particular entity and the risk assessment for audit purposes.

As explained elsewhere in this response, we do not see value in the auditor being associated with other information about which the auditor has no relevant understanding. The removal of such information from the scope of proposed ISA 720 would eliminate the need for its categorisation.

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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 qualitative and quantitative information included in the Appendix to proposed ISA 720 are helpful. We suggest that such examples should be presented in a way that allows linkage from those in paragraph A15.

RESPONDING WHEN THE AUDITOR IDENTIFIES THAT THE AUDITED FINANCIAL STATEMENTS MAY BE MATERIALLY MISSTATED

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 think that proposed ISA 720 is sufficiently clear in this regard. Paragraphs 14 and 15 refer to explanation in paragraphs A49 and A55 that effectively directs the auditor to the relevant other ISAs.

REPORTING

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?

(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?

Proposed ISA 720 comprehensively addresses several reporting issues. We have concerns, however, over the manner of reporting and the detail of the wording. These extend beyond considerations of the clarity and understandability of the statement required by paragraph 16 of proposed ISA 720.

The purpose of the statement is to increase transparency and so it should be easy to understand. There are limits to what a report can do, however, and it will be important for the IAASB to help in meeting the needs of intended users to increase their understanding.

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The level of user knowledge would have to approach that of the auditor for users to be expected to understand that (as proposed) a 'material inconsistency' is determined differently to a 'material misstatement' (please refer to our answer to question 6). Any statement from the auditor in the report would have to be disproportionately long in order to address this matter.

We doubt whether the intended users will understand the reference to 'our understanding of the entity and its environment acquired during our audit' as intended. It will raise questions about whether the auditor has ignored something from a previous audit, or has deliberately excluded information from other engagements or component auditors. Even if a user interprets the text as intended, the user does not know what that understanding is. As the scope of proposed ISA 720 extends to information about which the auditor will have very limited knowledge, there is an enhanced risk that there will be an expectations gap. This is one reason why we have suggested a change to the nature of the engagement.

We do not agree with the inclusion of a statement that there is no audit opinion or review conclusion. Such a statement is only appropriate in a report of an engagement that conveys no assurance. The audit report conveys assurance and it is wrong to insert a disclaimer in one part of it.

We also suggest that users should be informed of the ethical obligation on the auditor (under paragraph 110.2 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*) to avoid association with inappropriate information.[5]

Should our recommendations elsewhere in this response be accepted, we offer the following example of a statement that we think would be more easily understood. It avoids much of the repetition in the illustrative statements in proposed ISA 720.

> 'We are required to consider [specify the information] and report to you whether or not there is any material inconsistency between that information and the financial statements. We are also required to report whether or not, in considering the information, we identify any misstatements that are material to your understanding of the financial statements. We have found no such material inconsistencies or misstatements.'

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[5] This obligation may best be communicated, along with similar material, through a statement on the website of the appropriate regulator or standard setter.

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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?

Some information within the scope of proposed ISA 720 will be assured separately, either as a legal or regulatory requirement, or in response to users' demands.[6] In general, however, the auditor does not obtain, or communicate, assurance on the other information. Users may nevertheless derive some assurance from the knowledge that the auditor has been involved with the other information, particularly if they are aware of the related ethical obligations.

We see no prospect for converting the auditor's consideration of other information into a comprehensive engagement under an assurance standard. Information that falls within the scope of proposed ISA 720 is diverse and the question of an appropriate level of assurance needs to be addressed in the light of the nature of the information and the needs of intended users. The feasibility of any assurance engagement would also depend on the availability of suitable criteria and whether the auditor had adequate knowledge of the subject matter. The same would apply to agreed-upon procedures engagements.

[6] In our answer to question 4 above, we address the impact of such circumstances on reporting.

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GENERAL COMMENTS

In this section of our response we address the four matters identified in the section *Request for General Comments* of the exposure draft. We also comment on documentation, as our views on that did not fit easily into our answers to the specific questions in the exposure draft.

The IAASB is seeking general comments on the matters set out below:

(a) *Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)*—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).

(b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISA, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

(c) *Translations*—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.

(d) *Effective Date*—Recognizing that the proposed ISA is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

ACCA has developed this response following an internal due process involving preparers and users, those in developing nations, and those who will use the ISA in translation. This input, such as from our Global Forum for Audit and Assurance, has informed the whole of this response. However, in relation to (a) to (c) above we would particularly highlight the following matters.

Users

In our answers to the questions in the exposure draft, we explain the difficulty for intended users of understanding what the auditor has done and whether any comfort can be drawn from the report.

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We believe that users may question the value of the changes, given the absence of reference to the ethical considerations and the negative tone of the proposed statement of the auditor.

Translations

Proposed ISA 720 uses the word 'inconsistency' differently to its dictionary definition. This may cause difficulty for translators.

Effective date (paragraph (d) above)

We recognise the need to coordinate changes to reporting with those stemming from the auditor reporting project. Nevertheless, proposed ISA 720 is concerned not just with reporting but with the conduct of the audit and its commencement must recognise that.

The commencement of proposed ISA 720 is couched in terms of 'audits of financial statements for periods ending on or after [date]'. This is unusual as almost all ISAs have an effective date that refers to periods beginning on or after a particular date. If the effective date is specified as proposed and is 12 to 15 months after issuance of the final standard, it could be effective immediately for financial reporting years commencing at the time of issuance. Given the possible need for considerable conforming changes to other ISAs (including changes to the basis of the audit) we suggest that the IAASB revisits the timing and wording of the implementation date.

DOCUMENTATION

Material inconsistency

Paragraph 19 requires documentation where a material inconsistency is identified. However, paragraph 12 requires the auditor to discuss with management any cases where the auditor identifies that there may be a material inconsistency. If the matters were significant, such discussions would be documented as required by paragraph 10 of ISA 230 *Audit Documentation*.

We suggest, therefore, that the documentation requirement in proposed ISA 720 should not be constrained to actual material inconsistency but should extend to how the auditor addressed possible material inconsistency. [7]

This may have been the intention of the wording of paragraph 19; if so, such wording requires clarification.

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[7] As our comment relates to documentation, we do not explore the technical issues with regard to the interaction of 'significance' and 'material inconsistency' nor do we dwell on the interpretation of our use of the word 'possible' in the light of the requirement in paragraph 12 to discuss 'any identified'.

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Amendments of documents

We are concerned that paragraph A65 ends with brief wording concerning the case where the entity subsequently amends a document within the scope of proposed ISA 720.

Such circumstances could include the entity making a correction at the request of the auditor before issue or the entity revising the document after the date of the auditor's report. These cases are significantly different and we do not consider that proposed ISA 720 is sufficiently clear on the question of versions of documents and the difference between a document and 'other information'.

As an example of the difficulties this gives rise to, we note that paragraph 16(b) of proposed ISA 720 requires the auditor's report to identify specific documents. The annual report cannot be identified as a document because it includes the report of the auditor and so logically does not exist in final form until the auditor's report is signed. This problem could be addressed by defining those parts of the annual report that are not the financial statements or auditor's report as documents in their own right.

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PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO OTHER ISAs

In this section of our response, we comment on the proposed consequential and conforming amendments to other ISAs. In doing so, we have not sought to give effect to the changes we suggest in proposed ISA 720.

In general, the proposed consequential and conforming amendments to other ISAs properly reflect the need for such changes arising from proposed ISA 720.

More thought should be given, however, to the impact on other ISAs of the terms defined, or otherwise introduced, in proposed ISA 720. In particular, the use of consistent/inconsistent and whether to add 'acquired during the course of the audit' to other mentions of the auditor's understanding.

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