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Référence : YN/DIPAC/PFO : 20140497

**Re: Comments on IAASB Exposure Draft on (ED) : “ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information - Proposed Consequential and Conforming Amendments to Other ISAs”**

Dear Mr. Gunn,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the proposed ISA 720 (Revised) - *The Auditor's Responsibilities Relating to Other Information* and on the proposed consequential and conforming amendments to other ISAs.

The two French Institutes fully support the proposed ED of ISA 720.

We already supported the previous ED but we consider that the revised ED is an improvement of the previous draft. We support the main improvements of the revised ED for the following reasons:

- The approach retained in the revised standard is pragmatic;
- The proposed amendments are appropriately balanced in terms of costs and benefits and are in the public interest, in particular:
  - The scope of the other information that has been limited to the annual reports with a proper definition of what an annual report is for the purpose of the ISA;
  - The auditor's responsibilities, that consist in:
    - reading the other information to consider whether there is a material inconsistency with the financial statements or with the auditor's knowledge obtained during the course of the audit;
    - remaining alert for other indications that the other information appears to be materially misstated;
  - The nature and the extent of the procedures that are limited and defined at a principles-level;

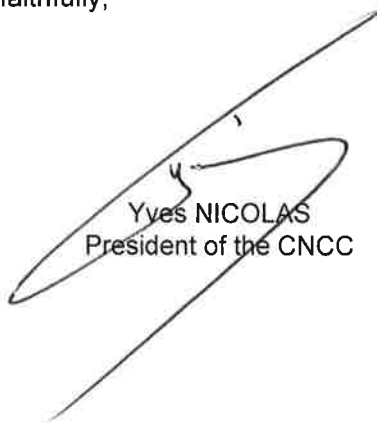
Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

- The form of the reporting, that provides transparency in the auditor's work and recognizes that the auditor's involvement with the other information does not rise to the level of an assurance engagement.

This letter also includes our response to the questions set out in the proposed document.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Yves NICOLAS  
President of the CNCC



Joseph ZORNIOTTI  
President of the CSOEC

## **Specific Comments**

**Question 1:** Do, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information?

Yes, we believe that:

- the stated objectives (i.e. read the other information to consider whether there is a material inconsistency with the financial statements or with the knowledge obtained during the course of the audit, respond appropriately and report thereon);
- the scope (i.e. other information included in the entity's annual report) and the definitions (i.e. annual report, misstatement of the other information, other information);
- the requirements addressing the auditor's work effort (i.e. limited procedures defined at a principles-level) together with related introductory, application and other explanatory material;

adequately describe and set forth appropriate responsibilities for the auditor on the other information. The definition of "annual reports" in particular will certainly help national standard setters define which documents fall into the scope of ISA 720 in their national context.

We recommend that the IAASB clarifies the wording of paragraph 3 to further enhance the understanding of the work involved and make it consistent with the objectives of the standard (paragraph 11):

*"3. This ISA requires the auditor to read ~~and consider~~ the other information **and in so doing, consider whether the** ~~because~~ other information ~~that is~~ materially inconsistent with the financial statements or the auditor's knowledge obtained during the course of the audit **as that** may indicate ~~that~~ there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared."*

Finally, we consider that the first term to be defined in the definitions section should be "other information". We therefore suggest that paragraph 12 (c) becomes paragraph 12 (a).

**Question 2:** Are, in your view, the proposals in the ISA capable of being consistently interpreted and applied?

Yes, we fully support the approach retained to define the nature and the extent of the work effort that we believe to be very clear and pragmatic. We consider that it is important to set the requirements at a principles-level to be consistent with the other ISAs and with the principles and objectives that governed the "clarity" project. The detailed guidance are set in the application material.

We consider that the revised requirements clearly define the procedures to perform and the level of the auditor's involvement, i.e.:

- read the other information to consider whether there is a material inconsistency between the other information and the financial statements/ the auditor's knowledge obtained during the course of the audit and remain alert for indications that the other information appears to be materially misstated. Paragraph 15 of the revised ISA states that the corresponding procedures to evaluate such a consistency are limited. This clearly recognizes that the auditor's involvement with the other information does not rise to the level of an assurance engagement;
- and respond in accordance with the required procedures (paragraphs 16 to 20) when a material inconsistency appears to exist or other information appears to be materially misstated.

This approach remains consistent with the one retained for the other ISAs. The combination between principles based requirements and the guidance (with practical examples) provided in application material is well balanced and explicit enough. We therefore believe that the proposals in the ISA will be consistently interpreted and applied.

**Question 3: Do, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information?**

Yes, we agree that the proposed auditor reporting requirements will result in an effective communication.

Nevertheless, we have the following comments for the proposed auditor reporting that should further enhance the quality of the communication to users:

– Management responsibilities

Even if we agree that a detailed description of management responsibilities in the section addressing the other information would appear disproportionately long compared to other sections addressing the audit of financial statements and could create an erroneous perception of assurance having been obtained on the other information, especially if the related section is similar in structure to assurance report, we consider that it is important to clearly state in the auditor's report that Management (or those charged with governance, as appropriate) is responsible for the preparation of the other information.

– Responsibilities of the auditor

We suggest amendment in the paragraph of the auditor's responsibilities to clarify the two stage process (read to consider) to be consistent with paragraph 14 of the revised ISA 720.

– Conclusion on the other information

We support an explicit conclusion on the other information and consider that the form of the statement, i.e. "nothing to report", is appropriate with the objectives and the involvement required from the auditor. Since the auditor is not seeking to obtain assurance on the other information, it is important that the auditor's conclusion be worded in other terms than the ones used for the assurance engagement. This should avoid the potential for an erroneous interpretation that assurance has been obtained. However, we believe that the conclusion should be clearly identified in the other information section. We therefore recommend isolating the conclusion on a separate line.

We also wonder about the wording of the reporting in light of the reporting used when there are no key audit matters to report, i.e. "*we have determined that there are no matters to communicate in our report*"<sup>1</sup>. We believe that the IAASB, if it receives a lot of comments on the "nothing to report" conclusion could consider the opportunity to harmonize the 2 types of conclusion/reporting.

The resulting amendments of the other information section are listed hereafter:

*"Other Information [for another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]*

*The other information obtained at the date of this auditor's report is the [information included in the X report, other than the financial statements and the auditor's report thereon.] **It is prepared under the responsibility of XXX.***

*We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon.*

*Our responsibility, **having to** read this other information, **and is** to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained*

<sup>1</sup> Paragraph A60 of the proposed ISA 701 (Agenda 4B of the IAASB main agenda --June 2014)

during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. If we determine that the other information is materially misstated, we are required to report that fact.

~~We have nothing to report in this regard~~ **We have determined that there are no matters to communicate in this regard”.**

**Question 4: Do you agree with the IAASB’s conclusion to require the auditor to read and consider other information only obtained after the date of the auditor’s report, but not to require identification of such other information in the auditor’s report or subsequent reporting on such other information?**

Yes, we agree with the IAASB’s conclusion to continue to require the auditor to read and consider other information obtained after the date of the auditor’s report, but not to require identification of such other information in the auditor’s report or subsequent reporting on such information. We believe that it is essential for the auditor to make appropriate arrangements with management to obtain in a timely manner and prior to the date of the auditor’s report the final version of the annual report as mentioned in paragraph 13 of the proposed ISA 720.

#### **Other Comments on specific matters**

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general 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).

As a professional institute, our members are issuers of the auditor’s report and not preparers or users of the financial statements.

**(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.

N/A

**(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.

We have no specific concern about the translation of final ISA.

**(d) Effective Date —** Recognizing that the proposed ISA results in changes to the auditor’s report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB’s Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

We have no specific concern about the proposed effective date for the standard.