



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Mr James Gunn
IAASB Technical Director
jamesgunn@iaasb.org

July 2014

Dear Mr Gunn

Exposure draft: ISA 720

The Auditor-General of South Africa would like to take this opportunity of submitting comment on the exposure draft referred to above.

We attach, annexed to this letter, our responses to the specific questions asked for your consideration.

Yours sincerely

Shelmadene Petzer
Deputy Business Executive: Audit research and development

Enquiries: Shelmadene Petzer

Telephone: +2712 422 9654

Fax: +2712 422 9822

Email: shelmadene@agsa.co.za

Response to specific questions

1. Whether, 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.

We believe that the ISA adequately describes and sets forth the responsibilities of the auditor. The objectives are appropriate and will be achieved through the requirements and application material. We agree with the requirements and application material, but have additional comments below:

- We suggest that paragraph 11 of the objectives incorporate the wording used in paragraph 3 of the scope of the ISA to explain that material inconsistencies are inconsistencies that undermine the credibility of the financial statements and the auditor's report thereon.
- In paragraph 12(b) we suggest that the 2nd sentence of the definition of a misstatement of the other information be amended to state that misstatements are material when they undermine the credibility of the financial statements and the auditor's report. This will create an appropriate link between the scope of the ISA and the objectives.
- We suggest that paragraph 14(c) be a separate requirement below paragraph 15.
- The requirement in paragraph 19(a) for the auditor to "perform procedures necessary under the circumstances" is vague. We suggest that the same wording per paragraph 17 is used, i.e. "determine that the correction has been made". In addition the requirements of ISA 560 should be applied even though a material misstatement of the other information does not fall within the definition of a subsequent event. The application material includes some of the requirements of ISA 560 as procedures that the auditor *may* perform.
- Paragraphs 18 and 19 use the following words "a material misstatement exists in other information". This wording should be amended to "a material misstatement of the other information exists" to ensure consistent use of terminology and alignment with the definition.
- The requirement in paragraph 20 that the auditor should "respond appropriately in accordance with the other ISAs" is vague. The word "other" should be deleted, the ISAs that the auditor is required to comply with should be listed and a footnote should be included with reference to the specific ISA paragraphs.
- Paragraph 21 relating to the aspects that should be included in the auditor's report should also include a requirement of where in the auditor's report the other information should be reported. A conforming amendment to ISA 700 is also required.
- The statement in paragraph 21(d)(i) that the auditor has nothing to report should be amended to make reference to the specific documents identified in 21(a). The sentence in paragraph A48 should therefore be amended as follows: We have nothing material misstatements to report with in this regards to the [information included in the X report].
- We believe the documentation requirements in paragraph 24 should be expanded to include the limited procedures performed.

- With regards to paragraphs A1 and A2, if separate documents could be seen as forming part of the annual report and if these documents could be made available to users in different formats e.g. on the auditee's website, further guidance is required on the extent of audit work necessary to identify these documents.
- Paragraph A6 states that where the financial reporting framework permits disclosures outside of the financial statements, that these disclosures still form part of the financial statements and is not "other information" in terms of this ISA. If the financial reporting frameworks permit disclosures outside the financial statements and specifically state that these disclosures do not form part of the financial reporting framework would this ISA be applicable?
- The phrase "or undertake other appropriate actions" could be added to paragraph A42 regarding the auditor's actions in the public sector when material uncorrected misstatements in the other information remains. This will allow for other actions by the auditor in addition to reporting to the legislature.
- Guidance is required on how the auditor should deal with other information included in the annual report that was subject to a separate assurance engagement in terms of this ISA. In the public sector in SA an annual performance report is included in the annual report which is audited at the same time as the financial audit and concluded on separately.

2. Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

Yes, but refer to comments made above.

3. Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

Yes, the matters reported accurately describe the auditor's responsibilities and that no assurance is provided on other information.

4. Whether 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.

No, our concern with not being required to include information about the other information is that the users might make an incorrect assumption that the auditors has no matters to report when in fact they have not had opportunity to read the other information. We believe that the auditor should include a statement that the other information was not read at the date that the auditor's report was issued and that the other information will be read once issued in the annual report.

The reasons for our recommendation are that in our environment the submission date of the auditor's reports and the date of tabling of the annual reports are legislated for spheres of government and the main user of these auditor's reports is parliament/ the legislature. If there is no such reporting requirement there will be inconsistency in our reports which could create misunderstanding.

General questions

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).

N/A

Developing Nations—Recognising 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

Translations—Recognising 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.

N/A