



Introduction

Amongst other functions, the International Organisation of Supreme Audit Institutions (INTOSAI) establishes International Standards for Supreme Audit Institutions (ISSAIs). In the areas of compliance, financial and performance audit, this is done under the auspices of its Professional Standards Committee (PSC).

For financial audit, INTOSAI takes the International Standards on Auditing (ISAs) adopted by the IAASB and adds, as necessary, Practice Notes which explain the way in which ISAs should be understood, interpreted and applied in the public sector context. Together, the Practice Note and the ISA make up the ISSAI. Financial audit ISSAIs are drawn up by the Financial Audit Subcommittee (FAS) of the PSC.

At its March 2014 meeting in Dubai, FAS decided that it will seek to respond to invitations by the IAASB to comment on exposure drafts. Its aim in so doing is to assist the IAASB to better present the public sector perspective in ISAs and thus reduce the need for Practice Notes.

FAS submissions to the IAASB present the common views of the individuals who sit on FAS as representatives of their individual SAIs. These submissions do not, however, necessarily present the views of the individual SAIs which are members of FAS and these SAIs may choose to make their own separate submissions to the IAASB.

Substantive comments below that are not taken up by the IAASB in the ISA will be considered by FAS as potential material for inclusion in its Practice Note.

How our comments in response to the first exposure draft have been addressed:

Not applicable, FAS did not respond to the first exposure draft.

Specific questions posed by IAASB:

Question 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.

Analysis and position:

FAS considers that 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.

FAS considers that the examples given (paragraphs A23 to A24) of limited procedures that the auditor may choose to perform to evaluate other information and guidance on the amount of testing to perform and on the items to test are appropriate.

Question 2

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

Analysis and position:

Definitions are clear and simpler than in both the extant ISA 720 and the first exposure draft. This will assist consistent interpretation and application.

FAS notes that the term "annual report" is defined in broad terms to allow for differing national requirements and practices. However, in some countries, the financial statements of some or all public sector entities are published as stand-alone documents and, in some cases, parallel publications, such as annual activity reports, reports on budgetary and financial management and performance reports – which might in some cases be considered as equivalent, in part or in whole, to an annual report – are published at (about) the same time as the financial statements and the auditor's report. It will be the responsibility of each SAI to define which of these documents, if any, are the equivalent of the annual report and thus to be considered as other information and then to apply this definition consistently across the board. FAS will consider whether the Practice Note should provide additional guidance on this matter.

Question 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.

Analysis and position:

FAS notes that, in the ED, the auditor's responsibilities in respect of other information are set out in the "other information" section of the auditor's report. It questions whether this would be better placed in the "responsibilities" section.

It is likely that setting out the auditor's responsibilities with respect to other information creates an expectation amongst users that the auditor will report his conclusions. However, FAS considers that the phrase "We have nothing to report in this regard" (ED, paragraph A48) does not bring value to the user and should be reconsidered. Indeed, it may be desirable to report only by exception to reduce the risk of conflict with more onerous national reporting requirements.

Question 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.

Analysis and position:

FAS considers that it is reasonable 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. However, FAS is concerned that this at present seems to be an open-ended commitment without a time limit. FAS would suggest that this responsibility should cease, for example, on the date of signature of the subsequent auditor's report.

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).
- (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.

Analysis and position:

FAS has no comments in relation to the above matters.

Remaining concerns with the proposed standard not raised in response to the specific questions posed to respondents:

The ED (paragraph A42) recognises that, in the public sector, withdrawal from the engagement may not be possible. FAS welcomes the phrase in this paragraph “In such cases the auditor may issue a report to the legislature providing details of the matter” but considers that the additional phrase “or undertake other appropriate actions” could usefully be added. FAS will consider supplementing this with further guidance in the Practice Note.

FAS considers that there might be an expectation in the public sector context that requires the auditor to do more work than the revised standard would require and/or to take a wider interpretation of the publications which represent the equivalent of the annual report. It will consider treating this question in the Practice Note.

Overall conclusion

FAS notes that the concerns raised in the first consultation have been successfully addressed by the IAASB. Whilst it raises above some specific observations and points of detail, FAS is broadly supportive of the proposed standard.

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