

Technical Director
International Auditing and Assurance
Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

March 14th, 2013

Dear Sir,

Re IAASB Exposure draft ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's report Thereon*

The *Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren* ("IRE-IBR") is pleased to have the opportunity to provide its comments on the Exposure Draft ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's report Thereon* issued by the International Auditing and Assurance Standards Board (IAASB).

Please find below our detailed comments on the questions raised by the IAASB, thereby articulating our underlying reasoning in relation to these matters.

Sincerely,

A handwritten signature in blue ink, consisting of a stylized 'M' followed by a vertical line and a horizontal stroke.

Michel De Wolf
President

Overall considerations

Overall, IRE-IBR supports the initiative of the IAASB to strengthen the responsibilities of the auditor with respect to other information. The IAASB considers there is a need to respond to stakeholders demands to strengthen the auditor's responsibilities with respect to other information. We are fully supportive of the IAASB's project to reform the current ISA 720 ("Proposed ISA") in order to address the evolution in communication in the context of the financial statement audit by the entity to the public in general, and the shareholders in particular. We believe it to be important to enhance the role of the auditor to address the expectation gap.

However, IRE-IBR stresses the importance to avoid the perception of "an audit in an audit" and suggests that the IAASB clarifies both objectives and scope of the Proposed ISA. We agree that no audit opinion or review conclusion is to be expressed on the other information (Par. 16 (d)), but suggest to check the consistency of the level of assurance with the objectives set forward in the Proposed ISA, in particular Paragraph 8 ("*There may be a material inconsistency in the other information*"). IRE-IBR established the fact that with this Proposed ISA the concept of materiality, by nature linked to the audit of financial statements, is shifted to procedures performed by the auditor in the context of other information. Given the fact that the auditor has to perform procedures, if necessary, when there may be a material inconsistency in the other information (paragraph 12) and has to explicitly report even when no material inconsistencies have been determined, a risk assessment might be necessary, leading thus to the perception of "an audit in an audit". We see a real risk of an increase in the responsibility and liability of the auditor.

Moreover, IRE-IBR also believes it to be of the utmost importance not to blur the line between national reporting obligations and ISA 720 requirements.

Furthermore, IRE-IBR is supportive of short and concise requirements as proposed in the Proposed ISA, but care should be taken not to lengthen the standard with application material thus avoiding application material of application material.

Please find below our detailed comments in relation to the questions asked by the IAASB, thereby articulating our underlying reasoning in relation to these matters.

Response to specific questions

Scope of the Proposed ISA

- 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?**

Yes.

In Belgium, the auditor is required by law to make a statement on the completeness, the consistency with the audited financial statements and the consistency as a whole of the director's report, which includes, for listed entities, a description of corporate governance as well as of internal control and risk assessment.

We believe there is a role for auditors with respect to increasing the reliability of other information, but question whether the proposed revisions to this standard are the right way to meet that desired objective. Furthermore, IRE-IBR is concerned that some users may draw unwarranted assurance from the proposed expansion in the scope of the auditor's work effort, if they do not fully understand what that work effort actually entails. More responsibility in performing more procedures (increased work effort) should not increase liability. This isn't reflected in the Proposed ISA.



2. Do respondents believe 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?

IRE-IBR is aware that in order to decrease the expectation gap and to increase the credibility of both the audited financial statements and the auditor's report, it is appropriate to broaden the scope of the Proposed ISA to documents accompanying the audited financial statements and the auditor's report. However, IRE-IBR believes that care should be taken that by broadening the concept of "other information" to "accompanying information", which does not necessarily contain information on the audited financial statements, users expect the auditor to read all documents published by the entity. In that respect, IRE-IBR does not believe that the example of a press release issued in connection with the initial release (Par. A5) is appropriate.

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?

While understanding the objective of broadening the scope of the standard to address information included in documents accompanying the audited financial statements (that meet the proposed criteria described in the standard), the criteria involve judgment and there is likely to be confusion over which documents may be in or out of scope,. This may lead to inconsistency in practice. In particular the concept of 'initial release' risks being confused with the concept of the 'date the financial statements are issued' used in ISA 560 (Subsequent Events). Initial release is also not a clearly defined fixed period. Clear guidance, beyond that included in the standard, will be needed for auditors in understanding this concept.

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 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?

As regards securities offerings documents, IRE-IBR believes it is unhelpful to include such documents, even in the limited circumstances described. The challenges of the interactions between the ISA 720 requirements and national requirements on such documents are not insignificant.

Objectives

- 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 the 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 that it is clear that the auditor's responsibilities include reading and considering the other information for consistency with the audited financial statements?**

In response to both questions, IRE-IBR has a number of concerns about the extension of the auditor's work effort imposed by the revised objective. The extension of the auditor's consideration, to be 'in light of the auditor's understanding of the entity and its environment acquired during the course of the audit' introduces a significant level of judgment, both around what the auditor might reasonably be

expected to know when reading the other information and what level of precision, given that knowledge, is to be applied in considering what may represent a material inconsistency in that information. Whilst the auditor would read the other information, applying the understanding obtained during the audit, the expectation that the auditor can identify and respond to inconsistencies in any matter, and report publicly on those matters, is a significant shift. This also risks significantly adding to the expectations gap. In addition, as levels of understanding vary across individuals and engagement teams, achieving consistency in practice will be a challenge that will need to be addressed.

As previously highlighted, we believe it to be important to avoid the misconception of “an audit in an audit”. In that respect, there seems that a considerable gap exists between the objectives (“in the light of the auditor’s understanding of the entity and its environment”) and the requirements. Therefore, IRE-IBR suggests rephrasing Paragraph 8 (b) as follows: “include a statement”. IRE-IBR also suggests reconsidering Paragraph 8 (a) (“may be”) in order to avoid an (implicit) risk assessment.

As to the auditor’s responsibilities to read and consider the other information, IRE-IBR believes that the requirements are clear. However, care should be taken that the application material is not confusing and does not go beyond.

Definition of an Inconsistency in the Other Information

- 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?**

IRE-IBR understands that the inclusion of Paragraph 9(a) (ii) with respect to information that is omitted or obscured is a consequence of eliminating the concept of a misstatement of fact. However, care should be taken that by reading this paragraph in combination with other paragraphs, the work effort for the auditor becomes unclear, in particular in the light of Paragraph 2 (b). In order to avoid an unnecessary and unwanted increase in the responsibility of the auditor as well as an increase of the expectation gap, IRE-IBR suggests reconsidering Paragraph 2 by deleting (b) and, consequently, also reconsider Paragraph 9 (a).

- 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, 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?**

Reference is made to our overall considerations and to our response to question 5.

IRE-IBR strongly believes it is of the utmost importance to avoid creating new expectations and therefore another expectation gap.

Nature and Extent of Work Effort

- 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 principle-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?**

Although a principle-based approach is proposed, the work effort seems to be very large. Reference is also being made to the overall considerations (paragraph 2), including the fact that the modifications made in the Proposed ISA are likely to cause a considerably increase in the auditor’s liability.

(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?

IRE-IBR believes guidance/examples on the categories of other information falling within the scope of the Proposed ISA, as well as on the nature and extent of the work effort is crucial. However, Paragraph A37 does not seem to be principle-based. We believe that the nature and extent of the work effort in considering the other information should be left to professional judgment. We also believe some of the application material, *e.g.* Paragraph A41, is of such importance that it should be a requirement and not merely application material.

(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?

Reference is also being made to the overall considerations (paragraph 2), including the fact that the modifications made in the Proposed ISA are likely to cause a considerably increase in the auditor's liability.

9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

As previously highlighted, IRE-IBR believes it to be important to provide guidance in order to explain what is or is not within the scope of the Proposed ISA. IRE-IBR suggests including other examples than those already acquired during the audit. Many of the examples given are already available in the financial statements in accordance with IFRS.

We also suggest including some additional examples which are more in line with the other information currently provided in annual reports. In that respect, IAASB might also consider to extend the examples to non-financial information.

Responding When the Auditor Identifies that the Audited Financial Statements may be Materially Misstated

10. Do respondents believe it is clear in the proposed ISA 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?

IRE-IBR believes the proposed ISA addresses the different scenario's possible and clearly sets out the auditor's response when he identifies information that its understanding of entity and environment and financial statements are materially misstated.

Reporting

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?

IRE-IBR supports the current inclusion of different illustrative examples of statements on other information.

However, as raised under question 5, the shift to an inaccuracy in the other information due to a difference identified by the auditor between the other information and the auditor's understanding of

the entity and its environment acquired during the audit, risks significantly adding to the expectation gap.

Furthermore, as we highlighted in our response to the invitation to comment on auditor reporting, IRE-IBR believes that, if such a statement is to be incorporated into the auditor's report, it is crucial that an overview is given of all the information considered by the auditor, in order not to create an expectation gap in the reader's mind according to which the auditor has looked at all information available at any time during or after the audit, especially if the information is published on the website of the entity. Therefore, we suggest modifying footnote 18 of the Proposed ISA in order to make it more stringent.

(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?

IRE-IBR strongly favours that no audit opinion or review conclusion is given on the material consistency of the other information. We believe that the proposed conclusion is clear and appropriate.

However, IRE-IBR believes the Proposed ISA should clearly state that, unless required by law or regulation, no audit opinion or review conclusion is expressed on the other information. IRE-IBR therefore suggests to rephrase paragraph 5 of the Proposed ISA to ensure that expressing an audit opinion or a review conclusion on the other information is not left to the auditor's judgment.

IRE-IBR also believes it to be helpful that the Proposed ISA clearly indicates where to incorporate such statement in the report. Some national reporting obligations may require a statement of the auditor not in the “Report on the Financial Statements” but in the “Report on Other Legal and Regulatory Requirements”.

Furthermore, as highlighted in our overall considerations, IRE-IBR believes the objectives of the Proposed ISA (par. 8) do not completely correspond to the overall objective that no audit opinion or review conclusion is to be expressed. Therefore, IRE-IBR suggests that IAASB clarifies the objectives of the Proposed ISA.

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?

IRE-IBR subscribes to the primary objective of the Proposed ISA that no assurance is provided on the other information.

However, as highlighted above, IRE-IBR believes IAASB should clarify both scope and objectives of the Proposed ISA.

