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Our ref SS/288
Contact Sylvia Smith

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Dear Sirs

Exposure Draft, ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

We appreciate the opportunity to comment on the proposed International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* (the exposure draft) issued by the International Auditing and Assurance Standards Board's (IAASB) in April 2014. We have consulted with, and this letter represents the views of, the KPMG network.

We generally support the proposed amendments, which we believe are a significant improvement on the proposals included in 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* that was issued by the IAASB in November 2012.

However, the appendix to this letter does include suggested changes to the proposed wording in the auditor's report to clarify:

- the auditor's responsibilities when a material inconsistency between the other information and the financial statements is identified; and
- that the statement in the auditor's report is only addressing the other information obtained as of the date of the auditor's report.

In addition, we believe many of the issues and challenges faced with respect to reporting on the auditor's responsibilities for and work over other information in the auditor's report arise because of the diversity between jurisdictions with respect to when other information is prepared and published. For example, in some jurisdictions the auditor is required to receive and consider all other information before it issues its report, while in other jurisdictions other information is not published until well after the auditor's report is issued. Additional challenges also arise from the diversity across jurisdictions with respect to whether the auditor is permitted



to dual date their report and the types of documents that could potentially represent other information. We acknowledge that addressing this diversity is outside the mandate of the IAASB. Therefore, it will be important that the IAASB considers feedback from national standards setters as to whether they believe the exposure draft could be applied in their jurisdiction in conjunction with current national requirements relating to other information and auditor reporting.

In the explanatory memorandum accompanying the exposure draft it is noted that the IAASB believes it would be appropriate to align the effective date of the exposure draft with that of the auditor reporting project. We agree with this proposal.

The appendix to this letter contains our responses to the specific questions raised in the explanatory memorandum that accompanies the exposure draft. In these responses we have expanded further on the issues raised above.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues in this letter.

Yours faithfully

KPMG IFRG Limited

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cc: Jean Blascos

Appendix 1

The IAASB is particularly interested in respondents' views on:

- 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.***

In our view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort set out in the exposure draft are appropriate. However, we believe that the drafting could be improved by making the following revisions to the requirement set out in paragraph 16 of the exposure draft.

*If the auditor identifies that a material inconsistency appears to exist (or becomes aware of **that the** other information ~~that~~ appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether...*

Our proposed revision is intended to clarify that the auditor is required to consider whether there is material inconsistency in the context of the other information as a whole, rather than requiring the auditor to consider whether there is a material inconsistency in the context of an individual section of the other information. The revision would also make the wording consistent with paragraph 17 of the exposure draft.

In addition, we recommend the following editorial changes to improve the clarity of the exposure draft:

- the reference in the second bullet of paragraph A21 of the exposure draft to "individuals" should be revised to "members of the engagement team" for consistency with the first bullet of paragraph A21 and other ISAs; and
- paragraph A26 of the exposure draft could be deleted, because it is a repeat of the guidance in the third bullet of paragraph A23 of the exposure draft.

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

We believe that generally the proposals in the exposure draft are capable of being applied consistently. However, because of diversity in national requirements, there may be a need for some national standards setters to supplement the requirements and application material in the exposure draft to clarify how the requirements and application material would be applied in view of specific national requirements in their jurisdiction. For example, there may be a need to clarify:

- the types of documents that meet the definition of other information;
- the auditor's responsibilities with respect to other information received after the date of the auditor's report since in some jurisdictions there is an expectation that auditors will not date the auditor's report until they have received and met their responsibilities with respect to the other information, while in other jurisdictions the auditor may not receive and read the other information until well after the date of the auditor's report; and
- the auditor's responsibilities when material misstatements in the other information have been identified after the date of the auditor's report since some jurisdictions permit auditors to update and dual date their reports while others do not.

We acknowledge that addressing differences that arise from national requirements is not something within the IAASB's mandate. Therefore, it will be important that the IAASB considers feedback from national standards setters as to whether they believe the exposure draft could be applied in their jurisdictions in conjunction with current national requirements relating to other information and auditor reporting.

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.*

We support including a statement in the auditor's report describing the auditor's responsibilities for and work performed over other information. However, we recommend the following changes to the proposed wording in paragraph 48 to clarify:

- the auditor's responsibilities when a material inconsistency between the other information and the financial statements is identified; and
- that the auditor's report is only addressing the other information obtained as of the date of the auditor's report.

Other Information

*The other information obtained **as of** ~~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.*

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

*Our responsibility is to read this other information and to consider whether there is a material inconsistency between ~~it that information~~ and the financial statements, or our knowledge obtained during the course of the audit **and if a material inconsistency is identified, whether a material misstatement exists.***

In reading ~~this~~ ~~the~~ other information, our responsibility is also to remain alert for other indications that ~~it~~ ~~the~~ ~~other~~ ~~information~~ appears to be materially misstated. If we determine that ~~this~~ ~~the~~ other information is materially misstated, we are required to report that fact. We have nothing to report in this regard.

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.*

We agree that the auditor should be required to read other information whether it is received before or after the date of the auditor's report.

We also believe that only identifying and reporting on other information received up to the date of the auditor's report in the auditor's report is practical and an appropriate approach to dealing with the issues that arise from applying alternative approaches due to the diversity in national requirements. In our response to question 3 we have proposed some revisions to how the proposed wording for the auditor's report could be revised to make it clear what other information the statement in the auditor's report relates to.

In addressing this issue, we considered the following alternatives and concluded that they would pose more practical challenges:

- the exposure draft could limit the auditor's responsibilities to only other information received up to the date of the auditor's report. The main issue with this approach is that it would not be in line with the national requirements in jurisdictions where other information is not required to be prepared and published until after the date of the auditor's report; or
- the exposure draft could require the auditor to identify what other information it had received before the date of the auditor's report and what other information it expects to receive after the date of the auditor's report. This would, however, create the expectation that the auditor should update its report when the other information not received at initial date of the auditor's report is received and read. This would be particularly challenging for jurisdictions where the auditor is prohibited from dual dating the auditor's report.

5. *In addition to the requests for specific comments above, the IAASB is also seeking comments of 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 aspects 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.**

We have no comment with respect to these questions.

- 6. 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 agree that it would be appropriate to align the effective date of the exposure draft with the auditor reporting project.