



18th July

To:

Mr. Schilder

Chair of the International Auditing and Assurance Standards Board

Re.: Comment letter from the Accounting and Auditing Institute (ICAC) in Spain relating to IAASB's exposure draft on International Standard on Auditing (ISA) 720 "The auditor's responsibilities relating to other information"

Dear Mr. Schilder,

ICAC appreciates the opportunity to comment on the IAASB's ("Board") exposure draft on revised International Standard on Auditing (ISA) 720 "The auditor's responsibilities relating to other information" issued in April 2014.

Without prejudice to the letters ICAC has signed along with other regulators and agreeing completely with the content of that letter, ICAC wants to express the following general and specific comments regarding the Exposure Draft.

Overall considerations

As the audit regulator in Spain we consider it important to pursue continuing improvement of standard setting for the audit profession and support the Board's efforts towards enhancing and improving consistency in auditors' practices around the world in connection with the verification of other information accompanying the audited financial statements.

As we mentioned in our previous letter dated 13th March 2013, we believe that the auditor is able to contribute to increasing financial security, by virtue of the knowledge acquired during his engagements, and by providing some external verifications on other documents accompanying financial information, which could secure the economic decisions taken by the users of financial statements.

We also share the view that an auditor should not allow himself to be related or associated to misleading information and that this principle should drive the auditor's behaviour.

We consider it important to define clearly the objective, the scope and the level of work expected from the auditor, with a perspective to avoid any increase in the "expectation gap" or any misunderstanding



about the role of the auditor and the level of assurance linked to his work. The enforceability of the provisions of the standards is also important for us as an audit regulator.

In this regard, the new exposure draft addresses some of the concerns that were raised in the letter we sent before. Nevertheless, a number of concerns remain and some others are now raised as a consequence of the changes proposed by the IAASB. Therefore, we would like to make the following comments.

Specific Considerations

Deletion of the definition of “inconsistency”

ICAC does not agree with the deletion of the definition of “inconsistency”, since it is a term that is still used in the drafting of the objective of the auditor, some requirements and some paragraphs of the application material.

The responsibility for the auditor is still defined regarding the detection of material inconsistencies and therefore the definition of what an inconsistency is should be kept in the standards for clarity reasons.

We have to bear in mind that the current ISA includes this definition, being this a term that determines and influence the definition of the auditor’s objective and the procedures to be carried out to reach it. With that definition the framework for the auditor’s function was established.

Now, if the definition is deleted, certain doubts and insecurity may exist regarding those objectives and procedures to be carried out by the auditors.

For all those reasons, and considering that the current definition is not complete we would suggest to change it for the following proposal:

“Other information that contradicts information contained in the audited financial statements or evidences a lack of information in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.”

Reporting implications and withdrawal from the engagement (paragraph A40 in relation to ISAs 580 and 705).

Paragraph A40 states that *“In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information*



casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.”

So according to this paragraph in cases when there are doubts on the integrity of management and those charged with governance that call into question the reliability of audit evidence the auditor may issue an audit report that contains a disclaimer of opinion. However, since this is included in an application material paragraph, it is an option for the auditor.

Paragraph 20 of ISA 580 states that *“The auditor shall disclaim an opinion on the financial statements in accordance with ISA 705 if:*

(a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs 10 and 11 are not reliable; (...)”

In our opinion, if according to this paragraph in case when there are doubts on the integrity of management so that the written representations are not reliable, the auditor has to disclaim an opinion on the financial statements. In the same way in the case considered in A40 when the doubts on the integrity of management call into question the reliability of audit evidence in general, the auditor should also be obliged to disclaim an opinion. This disclaim of opinion should then, for consistency reasons, not be an option for the auditor, as it is included in the draft, but an obligation and therefore be included in the requirement section.

This would not be contradictory with paragraph 9 of ISA 705 that states that *“The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.”*

If the auditor calls into question the reliability of audit evidence in general is like not having evidence on which to base his or her opinion, and therefore the auditor should disclaim an opinion.

Responding when a material misstatement in the financial statements exists (paragraph 20)

Paragraph 20 states that *“If, as a result of performing the procedures in paragraphs 14-16, the auditor identifies that a material misstatement in the financial statements exists or the auditor’s understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISAs”.*

In the current ISA paragraph 9 is clearer in this respect and contains a specific remission to ISA 705 (*“If revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion in the auditor’s report in accordance with ISA 705.”*)



Consistent with the provisions of other ISA's it would be helpful the explicit remission in this paragraph to ISA 705 "Modifications to the Opinion in the Independent Auditor's Report", and not only a general remission to "other ISAs" as it is proposed in the current draft.

Documentation requirement.

Paragraph 19 of the previous draft of this ISA (issued in November 2012) has been deleted. (*When the auditor has identified a material inconsistency in the other information, the auditor shall include in the audit documentation how the auditor has addressed the inconsistency.*)

ICAC does not agree with this deletion since it is considered important that auditors have to document how they have addressed any inconsistencies in the other information they have identify, since it is his or her responsibility to address those inconsistencies.

We thank you for the opportunity to comment on the exposure draft. If you have any questions or would like to further discuss the matters noted in this letter, do not hesitate to contact us.

Sincerely,

Madrid, 18th July 2014

Ana María Martínez-Pina

Chair of the Accounting and Auditing Institute