



# OICV-IOSCO

International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organização Internacional das Comissões de Valores  
Organización Internacional de Comisiones de Valores

18 July 2014

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 U.S.A.

Our Ref: 2014/JE/C1/IAASB/110

**Subject Line: IAASB's Exposure Draft: *IAASB's Proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information***

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *IAASB's Proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

## **Overall Comments**

We support the Board's effort in re-exposing the proposed ISA 720 having taken into account the significance of comments received on the previous ISA-720 exposure draft (ED-720 (2012)). We believe the Paper is an improvement when compared to ED-720 (2012) particularly as the concept of annual reports is capable of being more easily understood.



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Having said that, we have included in our letter some key points we believe should be addressed by the Board to make the ISA more operational and to drive consistency of implementation within practice and effective enforceability. Our comments focus on the scope of the Paper, the substance of the requirements and the reporting.

## Scope

Our members continue to have two distinct views regarding whether securities offering documents should be within the scope. Some members agree with the Board's position to exclude securities offering documents from the proposal; those members believe securities offering documents should be a matter governed by securities law. Other members believe securities offering documents include the same risks of material inconsistency in other information that are being addressed by the proposal and as such should be within the scope.

For our members who support inclusion of securities offering documents in the scope their concern centers particularly around the omission of securities offering documents for which the auditor acknowledges, by consent or otherwise, the inclusion of its audit report in the offering document before the audit report is published. In these circumstances, the auditor would be aware of the publication of the offering document, in which case, it would seem prudent to require the auditor to perform, at a minimum, the same procedures as required for "other information", and do this before the offering documents are published. On the other hand, where the audited financial statements are included with no involvement of the auditors, our members would agree that it is not practical to expect auditors to be responsible for the other information because there is no "trigger" for the company to engage them such that they could fulfill this responsibility.

We also recognize that, as part of the 2015-2019 IAASB Strategy project, the Board is in the process of considering a work-stream to address other financial information with which practitioners may be associated. We suggest a globally feasible standard to address securities offering documents could be a part of this consideration taking into account variations in laws and regulations from jurisdiction to jurisdiction.

## Substance of the Requirements

### *Auditor's Work Effort*

In our view, the new requirements regarding the auditor's work effort are an improvement when compared to ED-720 (2012) as the Paper now mandates that the auditor perform at least some procedures on the other information. However, we have a few points that we believe should be addressed to strengthen the proposal.



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1. The words “shall consider” is not precise and is difficult to translate in other languages. That said, we noted that these words play a prominent role in the requirements in defining the work effort expected of auditors. We appreciate the Board including additive requirements in paragraph 15 for the auditor to perform limited procedures to evaluate the consistency between amounts or other items in the other information as the basis for consideration in paragraph 14(a). We believe the specificity of these requirements that calls for specific action on the part of the auditor provides clearer directives for the work effort to be performed.

Nonetheless, we also note that paragraphs 14(b) and 14(c) have no such specific action-oriented requirements. We believe the absence of specific action-oriented requirements creates ambiguity and vagueness in the standard. We believe the Board should similarly use action-oriented or decision-oriented terms such as “determine”, “evaluate” or “assess” in the requirements that would accompany paragraphs 14(b) and 14(c), with the term “assess” being the preference of our members, to better articulate the expected work effort of the auditor. We believe this would improve the consistency in the implementation of the standard.

2. The scope of the ISA indicates that “The auditor’s opinion on the financial statements does not cover the other information, nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements”. We believe the auditor should be required to explicitly state this fact in the audit report particularly when reporting on the work effort with respect to paragraph 14(c).

In addition, even though the above statement seems consistent with the expectation that when examining the other information, auditors should take into account their understanding of the entity and its environment, paragraph 14 (c) seems to implicitly encourage the auditor not to disregard information obtained outside of the course of the audit. In this regard the work effort applied to this “outside information” not subject to audit procedures may not be the same level when compared to information used to consider whether there are any material inconsistencies in the other information with respect to 14(a) and 14(b). As a result, it would seem that the nature and extent of the work effort to be performed in 14(c) may be different when compared to 14(a) and 14(b) but this is not clear. In any event, we believe the work effort relating to 14(c) should be clarified in the Paper and also made transparent to the intended user of the audit report.

## *Documentation*

The documentation requirement states that “The auditor shall retain in the audit documentation the final version of the other information on which the auditor has performed the work required under this ISA”. We find this requirement to be lacking in substance as it provides little guidance to the auditor



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regarding an acceptable level of detail necessary to evidence the work effort performed. This is particularly concerning as it is unclear whether ISA 230, *Audit Documentation*, is applicable in the context of the Paper. If ISA 230, or portions thereof, are applicable the Board should clearly state this as part of the requirements in the Paper. Strengthening the documentation requirements enables the engagement team to be accountable for its work and at the same time it enhances the enforceability of the proposal, among other advantages.

## Reporting Requirements

In general, we support the Board's position that requires, as part of the reporting requirements, a statement making it clear that the auditor has not audited the other information. However, we have additional points that we believe should be addressed to strengthen the reporting requirements.

### *Other Information Not Obtained or Obtained After the Report Date*

We noted that the reporting requirement in the Paper is silent regarding the expectations of the auditor for other information received after the date of the auditor's report. If the auditor is required to "determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned timing of the issuance of such documents" and yet the auditor does not receive the other information promised or receives it after the date of the auditor's report, but issues a clean opinion, it seems that there is unfinished work still to be completed. We recognize the resolution to addressing other information not received or received after the date of the report is challenging particularly as the Board attempts to determine how auditors would be expected to inform users of the financial statements of the results of the auditor's work having not received all the other information or having received it after the date of the report.

Nonetheless, we believe silence by the Board on this issue could lead to inconsistent implementation in practice. Such silence also does not address the concerns expressed by respondents to ED-720 (2012) that the proposed work effort [or lack thereof] would likely result in ambiguity as to the nature and extent of work to be performed. As such, the IAASB should clearly and explicitly articulate the documents which comprise the other information that was obtained after the date of the audit report, the expected work effort and transparent reporting requirements of the auditor for other information received after the date of the report. For example, what course of action should the auditor take if some of the other information is not received? Could the auditor report on the results of its work in the next quarterly or interim report, or in a new, separate report, as appropriate?



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## *Expectations of the Auditor*

Similarly to above, where the auditor determines that a material misstatement exists in the other information obtained after the date of the auditor's report, the Paper states that the auditor shall perform the procedures necessary under the circumstances or take appropriate action, taking into account the auditor's legal rights and obligations. One such proposed action step provided in the application material of the Paper is "bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared". We believe clarity is needed to articulate how users should firstly, be identified as one for whom the report is prepared and secondly, informed of the material misstatement.

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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt  
Chair  
Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions