

July 18, 2014

Ref.: SEC/104/2014 - DN

International Auditing and Assurance Standards Board (**IAASB**)
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

Dear Sirs,

We, the Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the Exposure Draft of the Proposed International Standards on Auditing (ISA) 720 Revised, as developed by the International Auditing and Assurance Standards Board (IAASB).

In general, we are supportive to the changes proposed in the ISA 720 resulted from the Clarity Project; however we have some concerns with the inclusion of a Non-Assurance Section in the Audit Report, principally if it will in fact help the users of the audited financial statements or will cause more doubts, since it will be included in the same auditors' report: (i) opinion on the financial statements and (ii) additional non-assurance paragraph on other information.

In order to make our views clear we have certain recommendations and proposed changes in the wording of such section in the Audit Report as mentioned in the Appendix.

Our responses to each of the question made in the Request for Comments document are included in the Appendix to this letter.

Sincerely,



Idésio da Silva Coelho Júnior
National Technical Director
Ibracon - Instituto dos Auditores Independentes do Brasil

Responses to request for specific comments:

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.

We broadly support the revised objectives, scope, definitions and the requirements addressing the auditor’s work effort, except for the following aspects.

(a) Regarding the proposed definition of misstatement of the other information in the paragraph 12 (b), it is stated that “other information is incorrectly stated or otherwise misleading (including because **it omits** or obscures information necessary for a proper understanding of a matter). We understand that the mention to **omission** in the definition is problematic due to the fact that there is no framework to assess whether the other information is complete or not. In this regard, an auditor will not be able to determine an omission and so, we strongly recommend that the term “omits” be removed from the definition.

(b) The paragraphs 14 (b) and (c) bring two requirements to the auditor, that is respectively to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit, and requiring the auditor to remain alert for other indications that the other information appears to be materially misstated.

Regarding the first requirement, there are five paragraphs (A27 – A32) in the Application and other explanatory material explaining more broadly what is expected to be achieved, but regarding the above second requirement (c) above, there is just one (A33) with an example of other information that goes beyond the auditor’s knowledge obtained during the course of the audit without any consideration, which may create an important gap. In summary, the revised ISA 720 requires the auditor to “be alert”, but does not include any explanation in order to adequately describe and set forth appropriate responsibilities for the auditor in relation to such matter.

In the Explanatory Memorandum, the IAASB explains that this requirement recognizes the auditor’s ethical obligation not to be knowingly associated with other information that is otherwise misleading and that individuals reading and considering the other information may have relevant knowledge that goes beyond the knowledge obtained during the course of the audit. Taking in account what is said in the Explanatory Memorandum and the serious omission in the standard, we have the following recommendations:

- Not to be knowingly associated with other information that is otherwise misleading, in our view, this is best left in the ethical standards. Usually, we believe we do not bring aspects from the ethical standards to the ISAs.
- The paragraph 14(c) needs further consideration (or paragraph A 33) to better explain the intended aim of this requirement and how it is distinct from paragraph 14(b). It is unclear and, consequently, does not set forth appropriate responsibilities for the auditor.

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

Yes taking into consideration our comments with respect to questions 1 and 3.

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.

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Although we have some concerns with the inclusion of a non-assurance section in the audit report, we believe that our proposed changes, as presented below, in the wording of such non-assurance section will help to address the expectations gap that exists in this area.

(a) In the November 2012 ED, our concern was that the objectives stated and the requirements addressing the auditor's work effort was expanding the auditor's involvement with respect to other information, significantly beyond what could be reasonably accomplished in the context of the financial statement audit. The paragraph 2 of the April 2014 ED version made it clearer and understandable.

Although the standard has made the objectives and the requirements clear to the auditor, we believe there is still a potential problem that relates to the expectation of the users of the auditor's report and that shall be improved. Therefore, the information set out in paragraph 2, which we consider highly relevant, should also be in the auditor's report. Accordingly, because we believe to be of interest, we include below our suggestion marked in red/italic:

The other information obtained 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. ***The audit standards do not require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.***

Our responsibility is to read ***(not to audit)*** this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. If we determine that the other information is materially misstated ***(based on our reading and not based on our audit)***, we are required to report that fact. As described below, we have determined that such a circumstance exists.

(b) Notwithstanding the introductory wording describing the auditor's responsibilities, and the separate statement that the auditor has not audited the other information and does not express an opinion or any form of assurance conclusion thereon, we believe that the auditor's 'conclusion' *(If we determine that the other information is materially misstated, we are required to report that fact. We have nothing to report in this regard)*, is problematic and will be susceptible to misinterpretation.

We suggest the following, which we believe may be appropriate form of words for the final part of paragraph of the report section:

Our responsibility is to read ***(not to audit)*** this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. If we determine that the other information ~~is~~ materially misstated ***(based on our reading and not based on our audit)***, 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.

Yes, we agree. If other information is received after the date of the auditor's report:

- the auditor shall read and consider other information to avoid being associated with incorrect or misleading information; and
- the specific name of the documents that comprise that other information may not be precisely known and the auditor may not be in a position to identify that other information in the report.