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- please always indicate -

**Request for Comments:
ED ISA 720 (Revised) – *The Auditor’s Responsibilities Relating to Other Information***

Dear Mrs Healy,
Dear Ladies and Gentlemen,

We are pleased to take this opportunity to comment on the IAASB Exposure Draft ISA 720 (Revised) - *The Auditor’s Responsibilities relating to Other Information*.

Please find below our general remarks on the reworked ED ISA 720 (Revised) before we comment on the specific questions raised by the IAASB.

General remarks on ED ISA 720 (Revised):

In general we welcome the revision of ED ISA 720. We believe that this revision alleviates a series of issues that we found critical in the previous version of ED ISA 720.

This relates in particular to the avoidance of the use of unclear or ambiguous terminology and requirements (e.g. concept of ‘initial release’, phrase ‘primary purpose of providing information’, requirement ‘read and consider [...] in the light of the auditor’s understanding of the entity and its environment’). Especially we welcome the fact that the revised draft establishes a clear link to the financial statements as a basis to identify material inconsistencies.

Nevertheless some problems remain. We refer to our specific answers to questions 1 – 4 below.

Overall we are of the opinion that the decision whether it is the responsibility of the auditor to give assurance on ‘other information’ should be left to the legislators or should be dealt with on a contractual basis between client and auditor. There is a risk that - despite ISA 720.8 in connection with ISA 720.21(b) – users of the auditor’s report misunderstand the auditor’s requirements as to ‘other information’.

From a European perspective we would like to point out the following issue: In accordance with the definition of ‘annual report’ in ED ISA 720.12(a) a management report in the sense of Chapter 5 of Directive 2013/34/EU falls within the scope of ED ISA 720. The statutory auditor is required, amongst others, to express an opinion on this management report (Article 34 of Directive 2013/34/EU). Compliance with the EU provisions imposes work and reporting requirements, currently not provided for in the proposed ISA 720. We suggest that this issue should be addressed in an international auditing standard.

Questions of the IAASB:

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.*

The new requirements with regard to **reading and considering the other information** (ED ISA 720.14 and .15) are generally much clearer and better manageable compared to the requirements in the former ED ISA 720.11. In this context we support the requirement in ED ISA 720.14(a) – *Consider whether there is a material inconsistency between the other information and the financial statements*, especially because the benchmark for the identification of inconsistencies (‘financial statements’) is clearly identifiable and verifiable.

However, we think that requirement ED ISA 720.14(c) – *Remain alert for other indications that the other information appears to be materially misstated* is unclear and may in combination with the corresponding statement in the auditor’s report (ED ISA 720.A48) lead to an increase in the expectation gap:

- The demand to ‘remain alert’ is too unspecific and needs further clarification. In this context the relationship to the exercise of professional scepticism should be described.

- The requirement in ISA 720.14(c) in combination with the proposed wording in the example auditor's report in ED ISA 720.A48 ('If we determine that the other information is materially *misstated*, we have to report on this fact') may create the false impression that it is the auditor's obligation to perform procedures to detect misstatements in the other information.

The reworked **definition of ,other information'** in ED ISA 720.12 (a) and (c) introduces the term 'annual report'. At first glance this term implies a reduction of complexity in comparison to the requirements in the former ED ISA 720.9. However, the proposed definition of 'annual report' is extensive and vague so that only little improvement compared to former ED ISA 720.9 remains.

According to the definition of 'annual report' in the reworked draft, an annual report *may be a single document or a combination of documents, usually prepared on an annual basis (but may also be more or less frequent despite the use of 'annual')*, the annual report *contains or accompanies* the financial statements and *usually* includes the listed information. The use of such phrases ('*may be*', '*usually*', '*typically*') do not foster a clear and unambiguous understanding of 'annual report'.

We recognize that this definition is due to the fact that the publication of 'other information' differs considerably between jurisdictions and is influenced by legislators, regulators, preparers. Against this background, a consistent application may only be realisable on a national level. On an international level a consistent approach seems unrealistic.

We think it is not clear, how to handle reports that are embedded in a 'comprehensive report', but that 'when issued separately, are not typically part of the combination of documents that comprise an annual report' (ED ISA 720.A3). It may be derived from ED ISA 720.A3 that these report components are not to be read and considered by the auditor, since they do not meet the definition of 'annual report'. In this context what are the reporting requirements for the auditor according to ED ISA 720.21? Does the auditor have to explain what parts of the 'comprehensive report' were read and considered (e.g. 'we read and considered pages 1 – 20, 40 – 60, but did not read and considered pages 21 – 39')?

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

Please see our above comments to question 1 on 'remain alert' (ED ISA 720.14(c)) and 'annual report' (ED ISA 720.12(a), ED ISA 720.A3 and ED ISA 720.A4).

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.*

Basically we do think that the proposed requirements are capable to result in effective communication to users. But we would like to stress the following issues:

- Overall, we still believe that it is debatable whether an auditor's report should combine statements about the audited financial statements and statements about non-audited other information. Third parties might get confused about the degree of assurance on the financial statements and the other information. Rather there is the possibility that the listing of the other information in the auditor's report creates alleged evidence of extensive assurance of these other information. This can result in an increase in the expectation gap and in the risk of liability of the auditor. The statement "no audit opinion or review conclusion" in relation to other information may be only partly suited to reduce this risk.
- It may be helpful to explain more clearly that in cases where inconsistencies or misstatements in the other information are identified, but do not have their origins in the financial statements, no modification of the auditor's opinion takes place (except the rare situation described in ED ISA 720.A40).
- We also refer to our statements to question 1 on ED ISA 720.14(c).

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 do agree. The auditor's report should inform about the work performed and the results thereon. Future (intended) actions should not be described in the report.

We hope that our remarks will be taken into consideration in the subsequent course of the proceedings, and we would be delighted to answer any questions you may have.

Kind regards



Claus C. Securs
President



Dr. Reiner Veidt
Executive Director