

IAASB
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA
www.iaasb.org

Chris Barnard
Germany

06 March 2013

**Your Ref: Comment letter on 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**

Dear Sir.

Thank you for giving us the opportunity to comment on 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".

I broadly support your proposed ISA. I believe that expanding the scope to include documents accompanying audited financial statements, and extending the auditor's responsibilities to include reading and considering the other information for consistency with the auditor's understanding of the entity and the environment acquired during the course of the audit will help to reduce the expectations gap and the perceptions gap that were highlighted during your consultations on Enhancing the Value of Auditor Reporting¹ and Improving the Auditor's Report. Managing the expectations of users regarding the scope and role of the auditor with respect to the other information is a first step. Requiring a limited assurance on the other information will further enhance the value of auditor reporting to users.

¹ See paragraphs 15 and 16 of the IAASB Consultation Paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change", May 2011. The key to mitigating the expectations gap and the perceptions gap is clear and honest communication about the extent of the auditor's role, and the extent of the procedures, tasks and general work involved in carrying out that role. Users would then be able to better appreciate the completeness of the auditor's investigative work, and would therefore give greater credence to the auditor's views and opinions. With respect to the other information, as a minimum the auditor should be required to mention any qualifications, omissions or other problems thereon.

Answers to specific questions raised by the IAASB

1. Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?

I agree that there is a need to strengthen the auditor's responsibilities with respect to other information, and that this is in the public interest. This will enhance the value of auditor reporting to users.

2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?

Yes, I agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate. Given the increasing complexity of the underlying financial reporting arena, and the increasing volumes of information reported that accompany the audited financial statements, this will help to reduce the expectations gap and the perceptions gap.

3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?

Paragraph 9(b) defines initial release as occurring when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared, often the shareholders. This is clear and understandable in principle.

4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?

These are very limited circumstances, and therefore I would recommend that securities offering documents should be scoped out. This is reasonable and proportional.

5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:

- (a) Do respondents believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?

I believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is well-defined, understandable and practicable. In practice, the auditor may gain further understanding during the course of time and from the auditor’s general work and experience; however, I believe that restricting the auditor’s understanding to that acquired “during the audit” will improve objectivity, comparability and consistency in the approach.

- (b) Do respondents believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?

Yes, this is clear.

6. Do respondents agree that the definitions of terms of “inconsistency” including the concept of omissions and “a material inconsistency in the other information” are appropriate?

Yes, I agree that these definitions are appropriate. I also support the concept of omissions, as these may be misleading and could influence the economic decisions of users. There is clearly an element of auditor judgement required in this regard, but it is incumbent on the auditor to consider and communicate all such inconsistencies when providing assurance, and for managing the expectations of users.

7. Do respondents believe that users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?

The reporting requirements proposed in paragraph 16 are sufficient and complete so that users will understand that an inconsistency relates to an inaccuracy in the other information, based on reading and considering the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit.

8. Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor’s work with respect to the other information? In particular:

- (a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?

I believe that the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate. Given the changing nature and extent of financial reporting, and the increasing volumes of information reported that accompany the audited financial statements, a principles-based approach is more practicable and complete than a prescriptive approach.

- (b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?

Yes, these categories are appropriate.

- (c) Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?

This is difficult to anticipate. The principles-based approach is practicable, but there is a growing volume of information reported that accompanies the audited financial statements, and so the work effort would be expected to change over time.

9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

Yes, the examples included in the Appendix are quite helpful and provide useful guidance.

10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?

Paragraphs 12-15 clearly outline the auditor's response if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete. I agree with this process.

11. With respect to reporting:

- (a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the

statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?

The terminology is reasonable. I believe that the statement is clear and internally consistent.

- (b) Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?

It is important to manage users' expectations concerning what information has been considered, what has been reviewed and what the audit opinion covers. The statement is quite clear in this regard.

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

Yes, the level of assurance being provided with respect to other information is appropriate and will enhance the value of auditor reporting to users.

Yours faithfully

C.R. Barnard

Chris Barnard