

18 July 2014

To:

Mr. Schilder
Chair of the International Auditing and Assurance Standards Board

Re.: Comment letter from European audit regulators relating to IAASB's exposure draft "*The auditor's responsibilities relating to other information*"

Dear Mr. Schilder,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate 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. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
 - Austrian Auditors Supervisory Authority – Austria
 - Audit Public Oversight Council – Czech Republic
 - Danish Business Authority – Denmark
 - Auditors Activities Oversight Council – Estonia
 - Haut Conseil du Commissariat aux Comptes – France
 - Abschlussprüferaufsichtskommission - Auditor Oversight Commission – Germany
 - Hellenic Accounting and Auditing Standards Oversight Board – Greece
 - Auditors' Public Oversight Authority – Hungary
 - Irish Auditing and Accounting Supervisory Authority – Ireland
 - Financial Market Authority – Liechtenstein
 - Authority of Audit and Accounting – Lithuania
 - Commission du Surveillance du Secteur Financier – Luxembourg
 - Netherlands Authority for the Financial Markets – The Netherlands
 - Finanstilsynet – Norway
 - Conselho Nacional de Supervisão de Auditoria – Portugal
 - Romanian Public Interest Oversight Body of Accounting Profession – Romania
 - Auditing Oversight Authority – Slovakia
 - Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoria de Cuentas – Spain
 - Revisorsnämnden – Sweden
 - Financial Reporting Council – United Kingdom
2. As European audit regulators we consider it important to pursue continuing improvement of standard setting for the audit profession. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

Overall considerations

3. We support the Board's initiative to enhance and improve the consistency in auditor's practices around the world regarding "other information" that is not part of the audited financial statements.

4. As mentioned in our comment letter on the previous ISA 720 exposure draft, dated 14 March 2013, we believe that auditors are able to contribute to increasing the reliability of financial information, on the basis of which economic decisions could be taken, by virtue of the knowledge they have acquired during their engagements and by performing some external verifications on documents "accompanying" audited financial statements.
5. We also share the view that auditors should not be put in a position where they could be associated with potentially misleading information that they have not verified.
6. We therefore consider it important to clearly define the objective, the scope and the required work expected from the auditor. These should be reflected in the audit report, in order to avoid any increase in the "expectation gap" or any misunderstanding among financial statement users about the role of the auditor and the level of assurance provided.
7. The enforceability of the provisions of the standards is also important to audit regulators.
8. In this regard, the new exposure draft addresses some of the concerns that the audit regulators expressed regarding the 2012 exposure draft. Nevertheless, a number of concerns remains, as set out hereafter.

Additional requirements set by the European directive not covered

9. From a European Union perspective, we would like to stress the fact that the statutory auditor is required to pay special attention to the management report, a document which is included in "other information" as defined by proposed ISA 720. In accordance with the new directive 2013/CE/34¹ published in June 2013, the statutory auditor is required, amongst others, to express an opinion on: (i) whether the management report is consistent with the financial statements for the same financial year, and (ii) whether the management report has been prepared in accordance with the applicable legal requirements. For statutory auditors, compliance with the EU provisions would require additional work and reporting not currently provided for in proposed ISA 720 vis-à-vis the management report. We note that the exposure draft appears to provide room for jurisdiction specific requirements,² but we would like to draw the Board's attention to the fact that the European requirements are not fully addressed by the proposed requirements. As a result, additions will be needed for statutory auditors in EU countries. We would suggest that these elements be considered in the context of an international standard.

Objectives included in the proposal remain unclear

10. The objectives³ as integrated in the new proposal have been expanded, but still do not give a clear indication of what is expected from the auditor: while this paragraph partly details the work to be performed by the auditor on other information, it does not state what output is expected.
11. Moreover, the use of the terminology "*consider*" and "*respond appropriately*" remains unclear. In the same vein, "*report in accordance with this ISA*" is a circular statement that does not clarify what output is expected.

¹ Article 34

² ED 2014 §9 and §12(a)

³ ED 2014 §11

Scope of "other information"

12. We believe it is important that the standard defines which documents are included and excluded from its scope. We acknowledge that the documents produced alongside the financial statements may vary according to jurisdiction specific legal provisions. We believe that the scope, determined by reference to the "annual report" while leaving room to integrate the diversity of potential additional legal provisions, is an acceptable compromise. Indeed, the combination of the definition and the application material as proposed in the exposure draft is likely to enhance consistency in practice and to clarify the scope of documents covered. This, together with the specific identification, in the audit report,⁴ of the documents examined by the auditor is likely to remove uncertainty for the users about the documents covered.
13. We believe it is appropriate, in the current financial reporting environment, that integrated reports are not included in the scope of "other information".⁵
14. We would, however, like to draw the Board's attention to the requirement for the auditor to "*determine, through discussion with management, which document(s) comprises the annual report (...)*". We question whether this wording communicates accurately the intended action expected of the auditor, as it would appear that this proposal requires the auditor to refine the scope (and hence potentially exclude items) of other information upon the request of management. In our view, this would be inappropriate practice. The auditor should be responsible for determining the scope of other information in accordance with the standard and any additional legal provisions. Our suggestion would be to delete the reference "*through discussion with management*"⁶ or to include it only in the application material of the standard.
15. We concur with the Board's proposal to completely exclude securities offering documents from this standard, thus avoiding any confusion. Nevertheless, with a view to enhancing investor protection globally, we would be in favour of a description of the minimum level of work required from the auditor on such documents in a specific standard. This minimum could be supplemented in jurisdictions where national regulations are more stringent.

Determination of the level of work effort remains highly judgemental

16. In our view, the new requirements regarding work effort are an improvement in so far as the proposed standard now mandates that the auditor perform at least some procedures on other information. However, we note that the provisions remain highly judgemental with the application material placing the accent on the auditor's professional judgement for purposes of determining which procedures to perform, to what extent, and which amounts or other items in the other information to select. This will continue to pose a challenge for consistency and enforcement.
17. Moreover, the use of the terminology "*limited*" (in "*limited procedures*") should be avoided and deleted or replaced by a more accurate description, that would allow for enhanced consistency in application. We also reiterate that the wording "*consider*" is not precise, and accordingly, in this context, difficult to translate in other languages.
18. We still believe that auditors, when examining the other information, should take into account their understanding of the entity and its environment, which includes the outcomes of the audit. The auditor should also not disregard the information gathered or acquired outside the course of the audit in his professional capacity. The new proposals do not make this clear enough.

⁴ ED 2014 §21

⁵ ED 2014 §A4

⁶ ED 2014 §13(a)

19. Finally, we reiterate that the level of assurance (or of comfort provided by the auditor) that is associated with the detection of "material inconsistencies" as defined in this standard, could give rise to questions. Indications about the level of materiality of an inconsistency could also be usefully added to the standard.

Additional improvements needed in reporting on "other information"

20. We continue to support the Board's proposal that requires the auditor to explicitly disclose in the audit report which documents have been taken into account, based on the definition set in the standard, in order to inform users and to minimize the expectation gap.
21. We consider that the timing of the issuance of the audit report should not result in the auditor omitting action or omitting reporting with regards to other information. As a principle, the auditor should not issue the audit report until the other documents have been made available to the auditor, and unless laws and regulations impose otherwise. Thus, we support the requirement that encourages both the auditor and the entity to make appropriate arrangements with a view to obtain the documents prior to the date of the auditor's report,⁷ but the mention "*if possible*" should be deleted.
22. While we support the proposals that require the auditor to perform the same procedures on information received after the date of the auditor's report as on those received before that date, we do not support the fact that no reporting is made in that regard in the auditor's report. In particular, we disagree with the fact that no mention is required in the audit report when all or some of the "other information" is expected to be received only after the issuance of the report.⁸
23. With regards to the description of the responsibilities of the auditor included in the audit report, we recommend a better alignment between the requirements described in the standard with the work performed by the auditor on the other information and the suggested wording for inclusion in the report, which is not the case in the current proposal. We believe it would be in the interest of the users of the financial statements and the auditor's report that a description of the work performed by the auditor be included in the audit report.
24. We also again call the attention of the Board to the need for articulation between the standards dealing with the audit report (ISA 700-705-706) and this proposed standard, in order to address, for instance, the placement of the reporting required by proposed ISA 720 within the ISA audit report.

Documentation requirements need clarification to be enforceable

25. The proposed standard appears to require the auditor to retain a relatively low level of documentation, particularly as it is not clear whether or not ISA 230 "Audit Documentation" is applicable: it should be clarified whether ISA 230 applies or not, and if so, which provisions of that standard are applicable in the context of ISA 720.

⁷ ED 2014 §13(b)

⁸ ED 2014 §A47

Use of introductory paragraphs questioned

26. We do not support the extension of the number of introductory paragraphs in the standards. We believe that the comments should be incorporated into the body of the proposed standard (as objectives, requirements or application material as the case may be), to improve the clarity of the standard.

We thank you for the opportunity to comment on the consultation paper. If you have any questions or would like to further discuss the matters noted in this letter, please contact Laurence Duflo at the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulator of:

- Austria
- Hungary
- Portugal
- Czech Republic
- Ireland
- Romania
- Denmark
- Liechtenstein
- Slovakia
- Estonia
- Lithuania
- Slovenia
- France
- Luxembourg
- Spain
- Germany
- The Netherlands
- Sweden
- Greece
- Norway
- United Kingdom

Appendix – extract of Directive 2013/34/EU

Article 34

(...)

The statutory auditor(s) or audit firm(s) shall also:

(a) express an opinion on:

(i) whether the management report is consistent with the financial statements for the same financial year, and

(ii) whether the management report has been prepared in accordance with the applicable legal requirements;

(b) state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements.

2. The first subparagraph of paragraph 1 shall apply *mutatis mutandis* with respect to consolidated financial statements. The second subparagraph of paragraph 1 shall apply *mutatis mutandis* with respect to consolidated financial statements and consolidated management reports.