



14 March 2013

International Auditing and Assurance Standards Board for Accountants (IAASB)
529 5th Avenue, 6th Floor
New York, New York 10017

Dear Sirs,

Kreston International comments on IAASB Exposure Draft: “The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon”

Kreston International appreciates the opportunity to respond to the IAASB Exposure Draft: “The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon”.

Kreston International Limited is a global network of independent accounting firms. Currently ranking as the 13th largest accounting network in the world, Kreston covers 104 countries with 600 offices providing a resource of over 21,000 professional and support staff. Our member firms are involved in the audit of a range of businesses, from listed entities to SMEs and we have sought their input in preparing this response.

Kreston International members recognise the need to respond to both stakeholders’ expectations in respect of the reliability of other information and the changing nature and scope of corporate reporting. The proposed standard offers an appropriate and proportionate response to meeting expectations although there are some areas where greater clarity could be achieved.

We have given our responses to the detailed questions below.

- 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?**

It is agreed that strengthening the auditor’s responsibilities with respect to other information will be beneficial as part of a package of measures that collectively communicate more clearly the role and responsibilities of auditors.

The form of reporting is important to ensure that the expectation gap is narrowed and that readers do not assume greater assurance than is actually being provided by the auditor.

- 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?**

It is agreed that broadening the scope of the proposed ISA to include documents that accompany the audited financial statement and the auditor’s report thereon is appropriate.

However, the guidance in paragraph A13 appears to identify a difference in responsibility for the auditor depending on how and when the entity chooses to publish the information. The type of reports detailed in A13 appear to be in scope if contained in an Annual Report containing the Financial Statements and an Auditor’s Report but potentially out of scope if published separately and is not considered to have the primary purpose of providing commentary. This distinction may increase the expectation gap and could lead to inconsistent application of the standard.

Consideration could be given to requiring an initial assessment as to whether or not the other information has a primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process. The requirements of the ISA should then only apply to these documents. This would require clear identification both in the auditor’s report and the other information of the scope of work performed

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?**

The concept of initial release as defined in the proposed ISA 720 is clear and understandable. However, it is not clear that this may be different from the date the financial statements are issued as defined in ISA 560. If practical it would appear beneficial to have a common definition between the two standards.

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?**

It is considered that securities offering documents should be scoped out. These documents are usually prepared in accordance with national requirements and are subject a number of procedures. If they are within scope in limited circumstances there may be duplication and conflict between the roles and responsibilities of different advisors that could lead to additional cost to issuers with limited additional assurance to users.

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?**

The phrase “in the light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable when considered in

conjunction with the guidance. A concern is the expectations of users of the financial statements as to the level of understanding obtained by the auditor and the breadth of that understanding. Paragraph A41 recognises that the auditor is not expected to have an understanding of all other information. There is a potential risk that the auditor will be expected by a user to have read and considered information that although not primarily explaining the financial statements is contained within a report that is in the scope of the standard.

(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?

The requirements for the auditor at paragraph 11 do not explicitly state that consistency with the audited financial statements should be considered. This expectation is more explicitly stated at paragraph A31. Consideration should be given to amending paragraph 11 to include an explicit requirement to consider any inconsistency between the audited financial statements and the other information.

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?

It is considered that “inconsistency” and omission are two different concepts and should be defined separately for clarity. The definition of a material inconsistency is appropriate.

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?

In cases where an inconsistency is reported it should be clear to the user that this relates to an inaccuracy in the other information. However, consideration could be given to requiring the auditor to refer back to the opinion on the financial statements and that the identified inconsistency does not impact the audit opinion issued on the financial statements.

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?

A principle based approach for determining the extent of auditor’s work is appropriate.

(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?

The categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort appear 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?

The work effort appears to be at the expected level given the objectives of the proposed standard and does not extend the scope of the audit.

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

The examples included in the Appendix are helpful. However, it could be of assistance to expand the definition of other information for example by referring to both qualitative and quantitative data.

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?

Although paragraph 15 identifies that the procedures necessary under the ISAs need to be performed it is only in the guidance note that reference is made to the auditor’s understanding of the entity and its environment and the potential impact on the risk assessment.

Consideration should be given to requiring as part of paragraph 15 that the auditor “shall consider whether the indication that the financial statements may be materially misstated has any implications for the auditor’s understanding of the entity and its environment and, accordingly, for the auditor’s risk assessment.”

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 used should be understandable to experienced users of financial statements. However, there will be users of the financial statements that do not understand these terms and a mechanism needs to be established to enable for example the level of understanding of the entity and understanding acquired during an audit to be explained. The understanding of an entity covers a range of levels and therefore it is possible to create an expectation gap between users and auditors as to what level of understanding has been obtained.



(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?

The statement that “no audit opinion or review conclusion” properly conveys that no assurance is being expressed.

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?

The level of assurance being provided with respect to other information is appropriate. To provide a higher level of assurance would require an increase in both the workload and the scope of work undertaken. It is unclear that the additional cost would be justified by the benefits to users of the accounts.

If you have any questions please contact andrew.collier@kreston.com

Yours faithfully
For and on behalf of Kreston International

A handwritten signature in black ink, appearing to read 'A. Collier', is positioned below the typed name.

Andrew Collier
Director of Quality and Professional Standards