



European Federation of Accountants and Auditors for SMEs

Ms K Healy
Technical Director
International Auditing and Assurance Standards Board ("IAASB")
529 5th Avenue, 6th Floor
New York, New York 10017
United States of America
Brussels, 16 July 2014

Dear Ms Healy

**Comment on IAASB Exposure Draft - Proposed International Standard on Auditing (ISA) 720 (Revised)
The Auditor's Responsibilities Relating to Other Information and Proposed Consequential and Conforming
Amendments to Other ISAs**

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the IAASB Exposure Draft - Proposed International Standard on Auditing (ISA) 720 (Revised) - The Auditor's Responsibilities Relating to Other Information and Proposed Consequential and Conforming Amendments to Other ISAs.

General Remarks

In general we welcome this re-exposure of ISA 720 as it has alleviated a series of issues in the first exposure draft of ISA 720 that we felt needed to be addressed. As the IAASB has specifically asked for such feedback, we comment on the resolution of the issues in our answers to questions posed by the exposure draft.

Overall we now believe that the current proposals will meet reasonable user needs and so contribute, alongside currently planned changes to auditor reporting more generally, to enhancing the value of audit.

Request for Specific Comments

Our responses to the specific questions raised are set out below.

- 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.**

Scope

We believe that the scope of the proposed ISA is now clearer in that it is written in the context of an audit of the financial statements and as such relates to the annual report. The auditor should read the other information and consider whether that information is materially inconsistent with the financial statements or the auditor's knowledge obtained during the course of the audit. This is clear.



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In our response to the earlier exposure draft we stated that we did not believe that a bright line rule was required for securities offering documents or preliminary announcements and instead suggested that guidance should be provided in the application material, as auditors will have to interpret many circumstances. Reference to the specific exclusion of securities offering documents and preliminary announcements is now included in paragraph 7 and whilst we do not believe that this was required we are comfortable that our concerns in this regard have been dealt with by the inclusion, definition and linkage of the phrase “annual report” and “other information” in paragraph 12.

Objectives

The objectives appear appropriate and clear.

Definitions

The definition of an ‘annual report’ includes an acknowledgement that “the content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions”. We are aware that the publication of “other information” differs considerably between jurisdictions and therefore against this background, we would conclude that a consistent application and approach on an international level might not be achieved and we suggest that implementation would be facilitated by appropriate dialogue with national standard setters.

In our response to the earlier exposure draft we disagreed with the inclusion of a definition for “inconsistency” as we considered the term to be well-understood as used throughout the ISAs. We also raised concerns over what we considered to be unclear or ambiguous terminology such as the concept of ‘initial release’ (which we believed was unnecessary), the phrase ‘primary purpose of providing information’, and the requirement to ‘read and consider [...] in the light of the auditor’s understanding of the entity and its environment’.

These matters have been satisfactorily resolved in the current exposure draft and we welcome the fact that ISA 720 now establishes in paragraph 14(a) a clear link to the financial statements as a basis to identify material inconsistency and material misstatement.

Requirements

We believe that the requirement in paragraph 14(c) to “Remain alert for other indications that the other information appears to be materially misstated” is unclear. This is because (1) we do not know for how long an auditor is to remain alert and (2) we are unsure as to whether users of financial statements will sufficiently understand the exact meaning of “remaining alert”. Users may interpret the requirement in a more active way than intended and expect auditors to have carried out more procedures than are required for the audit of financial statements. Is this phrase asking the auditor to exhibit professional scepticism or is the auditor expected to do something else? We believe that the term is not sufficiently specific and in this regard there may well be an expectations gap. We would also note that explanatory paragraph A33 adds nothing further to the context of “remain alert” addressing only what “other information” might include when further guidance on “remain alert” might be of value.



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In our response to the earlier exposure draft we said *“the reference to acquiring the understanding during the course of the audit, is either unnecessary or is intended to limit in some way the validity of the auditor's statement. Given that proposed ISA 720 does not itself impose limitations on the auditor's procedures, and that the engagement partner is already required to take account of information received, for example from other engagements on the audited entity, we do not think that this wording is appropriate.”* This concern remains unresolved. There is a conflict between ISAs that needs to be resolved. As currently drafted paragraph 14(b) may not be clearly understood by all because it would be unlikely that readers would fully understand the scope and boundaries of the audit.

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

Overall, we find the proposals to be clearly stated and likely to be capable of consistent interpretation and application. These proposals have eliminated several judgements that were implicit in the previous ISA 720 exposure draft and the requirements now flow from the objectives and they are supported by appropriate examples of relevant procedures. That said, in general we believe that the proposed requirements are capable of resulting in effective communication to users subject to the following observations below.

As we have already noted, the definition of an ‘annual report’ includes an acknowledgement that “the content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions”. We are aware that the publication of “other information” differs considerably between jurisdictions and therefore against this background, we would conclude that a consistent application and approach on an international level might not be achieved to the extent desired.

We also note that the term “remain alert” (please refer to our earlier comments) is ambiguous and such ambiguity often leads to disparities in translation, interpretation and ultimately in application.

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.

In general we believe that the proposed requirements are capable of resulting in effective communication to users. The proposed reporting (paragraph 21) properly identifies the other information and the auditor's related responsibilities and provides a statement of the outcome of the work. We believe that this meets reasonable user needs.

That said, it may be helpful to explain more clearly that, where the financial statements are not misstated, no modification of the auditor’s opinion takes place, except in rare circumstances when there is a refusal to correct a material misstatement of other information that casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general (when a disclaimer of opinion on the financial statements may be appropriate).



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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 agree with the IAASB's conclusion in this regard and find the arguments for it in the explanatory memorandum persuasive. We appreciate, in particular, that it would not be appropriate to require less of the auditor than is in extant ISA 720.

We note that concerns have been expressed that other information received after the date of the auditor's report should be identified in it (paragraph A43). Although the proposals do not require identification, we note that nothing precludes such action by an auditor and this we believe is a necessary freedom in some jurisdictions.

Implementation

Partly because of the need to allow for translation and also to allow sufficient time to implement the final ISA 720 we would favour an effective date that is sufficiently long to accommodate these needs. We appreciate, however, that there is a need to implement the changes in step with those that may arise in relation to auditor reporting in general as the developments in the revised ISA 700 relating to auditor's reporting are also relevant for the revised ISA 720. Auditor commentary might include commentary regarding other information. Therefore we recommend that IAASB publish the revised ISA 720 in conjunction with the revised ISA 700.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours sincerely,

Bodo Richardt
President