



Kathleen Healy
Technical Director, IAASB

Posted as comment on:
www.ifac.org

17 July 2014

Ref.: AUD/AKI/HBL/NRO/HBU/EBL

Dear Ms. Healy,

Re: FEE comments on IAASB Exposure Draft (ED): “ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information – Proposed Consequential and Conforming Amendments to Other ISAs”

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the IAASB Exposure Draft (ED): “ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information, Proposed Consequential and Conforming Amendments to Other ISAs” (“the ED”) or (“ISA 720”).
- (2) This comment letter has been prepared by the FEE Auditing and Assurance Policy Group that consists of practitioners and experts from our member bodies, with the assistance of some other FEE groups. Any individual with membership of both the FEE Auditing and Assurance Policy Group and the IAASB has not participated in the discussions, drafting and approval of this FEE comment letter to avoid any real or perceived conflict of interest.

Main comments

- (3) The revised ED is a significant improvement of the previous draft. It has gone some way to recognising the fact that the auditor is not seeking to obtain any assurance on other information, which was one of the aspects of the previous ED that was insufficiently clear. However, we still believe that the IAASB could do more to make this clearer.
- (4) FEE has identified a few instances where clarification of the wording would enhance the understanding of the work involved and, therefore, ensure consistent application of the adopted standard. These instances are detailed in the following appendix and are summarised below:
 - As noted above, insufficient emphasis is placed on the fact that ISA 720 does not require obtaining assurance on other information; in this context we believe certain terms may need to be amended;
 - The objectives as set in the standard could be improved to avoid being a list of requirements, and instead be a statement of purpose;
 - The definitions could be improved to be simpler yet still allow flexibility in application;

- Certain requirements could be clearer and better explain the difference between the initial work effort, which is confined to “reading and considering” and the second stage that includes more detailed procedures if more work is required; and
 - The auditor’s responsibility regarding other information received after the date of the audit report is complex, and quite possibly a situation where a perfect answer does not exist. Notwithstanding this, we do believe that the standard should be more robust in trying to ensure that all other information is received prior to the date of the audit report being signed and, where this is not possible, the auditor’s report should include a statement of dissociation regarding other information received after this date. We believe that the position of the auditor is severely weakened where other information is received after the audit report has been signed. The public interest is best served if there is clarity on what the auditor has done and has not done in order to minimise any expectation gap.
- (5) As far as the timeline is concerned, FEE believes that the effective date of the revised ISA 720 should be aligned to the new and revised ISAs included in the auditor reporting project.

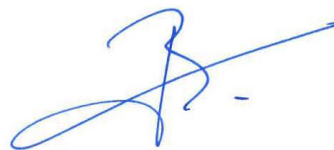
Applicability in an SME¹ environment

- (6) This standard is one where the application guidance for SMEs could be very valuable. In particular, it could better draw out the fact that in an SME audit, the work effort might simply be the engagement partner “reading and considering the other information”; whereas in a larger more complex audit, more extensive, formal procedures and protocols might have to be in place, such as the partner making enquiries of the group engagement team or component auditors.
- (7) For further information on this FEE² letter, please contact Hilde Blomme on +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert on +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE team.

Yours sincerely,



André Killesse
FEE President



Olivier Boutellis-Taft
FEE Chief Executive

¹ SME stands for Small- and Medium-sized Enterprises

² FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 47 professional institutes of accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

Appendix - Request for Specific Comments in the IAASB Exposure Draft: “ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information, Proposed Consequential and Conforming Amendments to Other ISAs”

1. Do 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?

Objectives

- (8) The objectives are now more appropriate than those contained in the original ED.
- (9) However, we still consider that there could be a greater emphasis placed on the fact that ISA 720 does not require the auditor to obtain assurance on other information; this could be achieved with an explicit statement in the objective. Such additional wording might beneficially draw more closely upon the wording set out in paragraphs 2, 3 and 8 of the scope section in the revised ED. We also refer to our concerns expressed in paragraph 12 below.
- (10) In considering these amendments, the IAASB might also consider the fact that the objectives appear to focus more on the required process and procedures. It would perhaps be more meaningful to the users, and it would go some way to addressing our reservations on paragraph 9 above, if the objective of the standard was amended to focus more on the desired output of the auditor’s responsibilities relating to other information.

Scope

- (11) As far as the scope is concerned, FEE commends the IAASB for the clarification, particularly for those included in paragraphs 2, 4 and 8 of the ED.
- (12) As we explain below, we are concerned that using the terms “misstatement of other information” and “material misstatement of other information”, initially in paragraph 3, and then linking it to audit report users’ economic decisions might imply that ISA 720 is indeed aimed at providing additional assurance to users. In turn, this may increase the expectation gap in relation to the auditor’s work on other information. Referring to our opening comments in paragraph 4, we believe these particular terms should be amended throughout ISA 720.
- (13) We also believe it ought to be clear that ISA 720 applies to audits under ISA 800³ or ISA 805⁴ (reference is made to paragraph A3 where there is a mention of “reports to meet the needs of a specific stakeholder group”). In our view, it is equally important to apply ISA 720 in such situations where other information exists.

³ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* accessible at: <http://www.ifac.org/sites/default/files/publications/files/A041%202013%20IAASB%20Handbook%20ISA%20800.pdf>

⁴ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* accessible at: <http://www.ifac.org/sites/default/files/publications/files/A042%202013%20IAASB%20Handbook%20ISA%20805.pdf>

Definitions

- (14) We agree that the definitions require inherent flexibility to accommodate differences in the form and content of annual reports throughout the world and that this flexibility is also important if the standard is to effectively cater for a wide range of entities from SMEs to large Public Interest Entities.
- (15) However, it is currently drafted using words such as ‘typically’ or ‘usually’ and we have some concern that this may lead to inappropriate variations in interpretation and hence poor implementation of the standard.
- (16) Therefore, we suggest the following alternative definition of “annual report”:
- Annual report – A document, or combination of documents, that contains or accompanies the audited financial statements, and is prepared by management or those charged with governance in accordance with law, regulation or custom, to provide intended users with information about the entity’s operations, the entity’s financial results and financial position as set out in the audited financial statements.

Requirements

- (17) We support the recognition of the scenarios stated in paragraph 16 (a) to (c) where the auditor needs to take further action as a result of initial procedures, undertaken in accordance with paragraphs 14 and 15 (i.e. where the auditor identifies that a material inconsistency appears to exist).
- (18) However, as noted in paragraph 12 above, the term “material misstatement of the other information”, used in paragraph 16 (a), might contribute to an expectation gap that the auditor is seeking to provide assurance in relation to the other information. In our view, paragraph 16 (a) should be rephrased to reflect the fact that other information may be either factually incorrect or otherwise misleading. Such a change would require consequential changes elsewhere in the standard, including paragraph 12 (b).

2. Are the proposals in the ISA capable of being consistently interpreted and applied?

- (19) Referring to our comments noted above in response to Question 1, we do have some concern that ISA 720 may not be consistently applied.
- (20) One way in which consistency might be increased would be for the IAASB to consider whether it is possible to more clearly delineate the work effort that is described in paragraphs 14 and 15 (i.e. the initial work aimed at identifying whether there are apparent inconsistencies) from that required by paragraph 16 (i.e. determine the impact of an apparent inconsistency).
- (21) The revised wording should clearly indicate that the work is a two stage process:
- As a first stage: the initial work should be confined to “reading and considering”; and
 - Only when inconsistency appears to exist, as a second stage: more detailed procedures to be required, including evaluation.
- (22) Without such clarification, we are concerned that regulators and practitioners may interpret the specific work effort differently in similar circumstances. More specifically:

- The wording of paragraphs 14 and 16 need aligning; the latter references where “the auditor identifies that material inconsistency appears to exist”, whereas paragraph 14 references “whether there is a material inconsistency”. The word “apparent” should be added to paragraph 14.
- The IAASB might want to reconsider the appropriateness of the terms “limited procedures” and “evaluate” in paragraph 15. These terms may contribute to a lack of distinction between the initial work effort and the auditor’s response to the results of this initial work effort. This is particularly likely as the IAASB⁵ has already defined the term “evaluate” in a way that goes beyond an initial reading and consideration.
- The requirement for the auditor “to consider” is not always straightforward: in English, this term can assume various different meanings depending on the context, and can thus be problematic upon translation⁶. Using the application material to expand upon what “consider” may entail is a long-winded way to attempt to clarify matters.

3. Do the proposed auditor reporting requirements result in effective communication to users about the auditor’s work relating to other information?

- (23) Yes, we agree that the proposed auditor reporting requirements will generally result in effective communication.
- (24) Nevertheless, there might be a need to address the fact that the auditor did not have certain other information made available to him/her at the date of signing the auditor’s report and therefore disassociates him/herself with other information that would come later (reference is made to our response to question 4 below). In our view, the public interest is best served if there is clarity on what the auditor has done and has not done in order to avoid any risk of creating an expectation gap.
- (25) Additionally, if the objective is changed to reflect our suggestion in our response to question 1, it will also be necessary to amend the wording in the section of the auditor’s report dealing with auditor’s responsibilities for other information.

4. Do 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?

- (26) We recognise that this ISA has to accommodate a wide variety of laws and regulations, and hence it must consider the impact, to the auditor, of other information received after the date of the audit report. Nevertheless, we are of the view that the expectation gap is minimised, and the public interest is best served, if all other information is received, and hence read by the auditor, in advance of the auditor’s report being signed. This enables the auditor to fully consider the other information in the context of his/her audit. Notwithstanding that ISA 720 requires flexibility, it should not facilitate management wilfully “holding back” certain other information in order to preclude the auditor from reading it and, where necessary, taking appropriate action before finalising the auditor’s report.

⁵ Reference is made to the IAASB Glossary of Terms where “evaluate” is defined as follows:

“Identify and analyse the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and effectiveness of management’s response to risk.”

⁶ During the Clarity Project, the IAASB carried out an exercise to limit the use of “consider” to mean the auditor’s thought processes for this reason.

- (27) In the European environment, we are not aware of any legislation which would necessitate the auditor not receiving all of the other information prior to signing their audit report. Subject to appropriate arrangements being made between the entity and the auditor, it is therefore possible to ensure that all other information is received in advance of the audit report being signed. In some jurisdictions such as the UK, this has been effectively mandated through additions to ISAs.
- (28) For this reason, we suggest a modification of paragraph 13 (b) of the revised standard to remove “if possible” and include a third subparagraph to explain a conditional requirement, applicable if it is not possible to make such arrangements as described in paragraph 13 (b). We believe that this would strengthen the original requirement. Alternatively, the Application Material could be utilised to cover situations where other information is received after the audit report date. Finally, when this does occur, we believe the auditor’s report ought to make this fact clear (i.e. auditor disassociation), rather than being silent.

Other matters relating to the Application Material

- (29) We refer to our comment earlier in this response regarding the application of ISA 720 in an SME environment.
- (30) Additionally, the final sentence of paragraph A32, explaining that it is not the purpose for the auditor to cross reference every matter in the other information to audit documentation, is important and needs to be more prominent in the Application Material.

Other matters relating to the conforming changes to other ISAs

- (31) ISA 210: more robust wording should be considered in order to dissociate the auditor with any responsibility about other information that is not provided prior to the date of the auditor’s report.
- (32) ISA 230: it is important to document the date on which the information is received and the work done (i.e. read and consider and potentially work done under paragraph 19 (b)) – not just file the final version alone.
- (33) ISA 260: the proposed changes to paragraph A20 are perhaps too subtle and pose the question as to whether the standard is attempting to convey the idea that looking at other information received after the date of the auditor’s report is considered to be “during” the audit or not? This needs to be clear given the fact that ISA 560 is to be amended to specifically exclude this. In some circumstances, this could be a matter to be communicated to those charged with governance – even after the date of the auditor’s report.
- (34) ISA 450: the proposed changes to paragraph A16 are in line with the comments FEE made above about the definition of “material misstatement” in the context of “other information”. Paragraph A16 ought to be amended so as not to refer to influence on the economic decisions of financial statement users.