14th March 2013

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

Re.: Comment letter from the Accounting and Auditing Institute (ICAC) in Spain relating to IAASB’s exposure draft on International Standard on Auditing (ISA) 720 "The auditor’s responsibilities relating to other information in documents containing or accompanying audit financial statements and the auditor’s report thereon"

Dear Mr. Schilder,

ICAC appreciates 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 in documents containing or accompanying audit financial statements and the auditor’s report thereon" issued in November 2012.

**Overall considerations**

As the audit regulator in Spain we consider it important to pursue continuing improvement of standard setting for the audit profession and support the Board’s efforts towards enhancing and improving consistency in auditors' practices around the world in connection with the verification of other information accompanying the audited financial statements.

We believe that the auditor is able to contribute to increase financial security, by virtue of the knowledge acquired during his engagements, and by providing some external verifications on other documents accompanying financial information, which could secure the economic decisions taken by the users of financial statements.

We also share the view that an auditor should not allow himself to be related or associated to misleading information and that this principle should drive the auditor’s behaviour.

We consider it important to define clearly the objective, the scope and the level of work expected from the auditor, with a perspective to avoid any increase in the "expectation gap" or any misunderstanding about the role of the auditor and the level of assurance linked to his work. The enforceability of the provisions of the standards is also important for audit regulators.

In this regard, we think that some of the proposals set out in this ED are not fully satisfactory. We have given our support to the letter sent by some members of the European Auditors Inspection Group (EAIG), however we would like to add to the content of that letter other concerns as detailed below in order to help clarifying the content of the ISA and avoid confusion resulting from inaccuracies.

**Concept of “Initial Release” (paragraph 9 and A4)**

The concept of "initial release" is not clear and given that is one of the criteria that determine the documents that will be within the scope of this ISA some clarification would be needed.
According to paragraph 9 of the definitions sections, the initial release occurs “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”.

Then paragraph A4 states that “the entity’s initial release may occur through, for example:

- Filling the documents with a regulatory authority, a securities exchange, or an official public repository.
- Distributing the documents directly to shareholders for the annual shareholder’s meeting.
- Publishing the documents in accordance with law or regulation.”

Besides it is confusing that this ISA points out a different moment in time that those foreseen in ISA 560 on “Subsequent events”.

We understand, in this regard, that there is no need for the introduction of a new temporal landmark, considering that in the whole body of ISAs reference is made to other moments, for example the ones stated in ISA 560 on “Subsequent events”, that could be applicable to this ISA.

If the concept of “initial release” of ISA 720 is maintained to avoid misunderstandings some further clarification would be needed to clear state the moment that is going to be considered as the initial release, if it is the first of the three moments stated in paragraph A4 or the moment referred to in paragraph 9 (when the information is made available to shareholders).

Relation between this ISA and ISA 560.

Some clarification is needed regarding the relation between this ISA and ISA 560.

Paragraph A27 establishes that “when the other information is obtained after the date of the auditor’s report the auditor is not required to update the procedure performed in accordance with paragraphs 6-7 of ISA 560. However, the auditor’s responsibilities when facts become known to the auditor after the date of the auditor’s report are addressed in paragraphs 10-17 of ISA 560.”

Paragraphs 6 and 7 of ISA 560 are referred to facts occurred between the date of the financial statements and the date of the auditor’s report while this paragraph A27 is related to facts after the auditor’s report, so the mention to the fact that the paragraphs 6 and 7 of ISA 560 do not apply would not be necessary since they are not referred to the information obtained after the date of the auditor’s report.

Besides in paragraphs 10 to 17 of ISA 560 it is included the need to carry out, in certain cases, the procedures foreseen in paragraphs 6 and 7 so the drafting of this paragraph is not clear, since it first states that paragraphs 6 and 7 are not applicable and then it refers to the application of paragraphs 10 to 17, where references of paragraphs 6 and 7 are made.

If the new ISA intends to state that the auditor shall not carry out the requirements included in paragraphs 6 and 7 in any case, maybe this paragraph should be drafted as follows:

“When the other information is obtained after the date of the auditor’s report the auditor is obliged to fulfill the requirements included in paragraphs 10-17 of ISA 560. However he or she is not required to update the procedure performed in accordance with paragraphs 6-7 of ISA 560.”

In the current ISA, paragraph 11 states that “if revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in ISA 560” and in the footnote it makes a reference to
procedures included in paragraphs 10 to 17. We do not see the reasons to prevent the auditor from carrying out the audit procedures foreseen in paragraphs 6 and 7. So we would prefer paragraph A27 to be drafted as follows:

“When the other information is obtained after the date of the auditor’s report the auditor is obliged to fulfill the requirements included in paragraphs 10-17 of ISA 560.”

Reporting implications and withdrawal from the engagement (paragraphs A52 and A53).

Paragraph A52 states that “In rare circumstances, a disclaimer of opinion may be appropriate when the refusal to correct the material inconsistency in the other information 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.”

Paragraph A53 states that “Withdrawal from the engagement may be appropriate when the circumstances surrounding the refusal to correct the material inconsistency in the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained during the audit and therefore audit evidence obtained in support of the audit opinion on the financial statements.”

Reading both paragraphs it seems that in cases when there are doubts on the integrity of management and those charged with governance that call into question the reliability of audit evidence the auditor can either issue an audit report that contains a disclaimer of opinion or withdraw from the engagement.

In our jurisdiction, since the withdrawal of the engagement would not be allowed in this case, the auditor would only have the option to disclaim the opinion. However, in jurisdictions where the withdrawal is allowed, auditors do not get clear ideas of what they should do by reading these paragraphs, that seem to leave the decision to the auditor. If the intention is to leave the decision to the auditor’s option maybe these two paragraphs could merge and be drafted as follows:

“Withdrawal from the engagement or a disclaimer of opinion may be appropriate when the refusal to correct the material inconsistency in the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained during the audit and therefore audit evidence obtained in support of the audit opinion on the financial statements.”

Reporting, Illustrative Statements (paragraphs 17, A57, A58 and A61).

Paragraph 17 states that “When auditor’s opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statements required in paragraph 16 c)”. Consistent with the provisions of other ISA’s it would helpful the remission to ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report”. Moreover, given the importance of the reporting implications when the auditor’s opinion is modified, paragraphs A62 and A63 should be placed in the requirement paragraphs instead of the application and other explanatory material one’s in order to complete the explanation on paragraph 17. Regarding the illustrative statements for reporting included in those paragraphs, the ED does not contain an explanation regarding where these paragraphs should be placed. For example, these paragraphs could be placed in the description of the auditor’s responsibilities or as an “other matter paragraph”. In the Current ISA 720, paragraph 10 a) clearly states that these issues are included in an “other matter paragraph”.

Moreover, the title of A61 “Qualified opinion due to a material Misstatement in the Financial Statements” may not be accurate. Paragraph A61 does not refer to a case when there is a material misstatement in the financial
statements, on the contrary, it refers to a case when the other information is consistent with the financial statements but is materially inconsistent with the auditor's understanding of the entity and its environment. In this case, what the paragraph is stating is that there is a need to report in a similar manner as stated in paragraph A58. It is not understood by the writing of this paragraph or by the writing of paragraph A58 that a qualified opinion is needed in this case, and, in our opinion, it would not be necessary to issue a qualified opinion.

We thank you for the opportunity to comment on the exposure draft. If you have any questions or would like to further discuss the matters noted in this letter, do not hesitate to contact us.

Sincerely,
Madrid, 14th March 2013

Ana María Martínez-Pina
Chair of the Accounting and Auditing Institute