

22 July 2014

Submitted electronically to [kathleenhealy@iaasb.org](mailto:kathleenhealy@iaasb.org)

Ms Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue  
New York  
10017 USA

Dear Kathleen

***Comments on the 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 Independent Regulatory Board for Auditors (IRBA) is both the Audit Regulator and National Auditing Standard Setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. Its statutory Committee for Auditing Standards (the CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the 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 proposed ISA), developed by the International Auditing and Assurance Standards Board (IAASB).

Please accept our apologies for our late submission of the IRBA comment letter on the proposed ISA. We hope you will still be able to take account of our comments given the importance of this topic.

Our comments have been prepared by a task group of the CFAS comprising representatives from SMP, large firms and the public sector. Our comments are presented in the following sections:

1. General comments
2. Request for specific comments and responses; and
3. Request for general comments.

In our comments, when commenting on the wording of specific paragraphs in the proposed ISA, words ~~stuck through~~ should be deleted and words underlined should be added to the text of the proposed ISA.

Kindly e-mail me at [ivanker@irba.co.za](mailto:ivanker@irba.co.za) / [nsimons@irba.co.za](mailto:nsimons@irba.co.za) or phone on direct line: +27 87 940 8838 / +27 87 940 8862 if further clarity is required on any of our comments.

Yours faithfully

***Signed electronically***

**Imran Vanker**  
**Director: Standards**

**Nicolette Simons**  
**Professional Manager: Standards**

## 1. GENERAL COMMENTS

We generally support the IAASB's efforts in developing the proposed ISA, and in particular the IAASB's objective to clarify an auditor's roles and responsibilities regarding other information so as to not undermine the credibility of the financial statements and an auditor's report thereon. We believe that there is a need to strengthen an auditor's responsibilities regarding other information in areas that are clearly relevant to protecting the public interest.

We believe that the proposed amendments to the proposed ISA are a significant improvement to those proposed amendments included in the first exposure draft of proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report* that was issued in December 2012.

However, we do have the following overall concerns regarding the proposed ISA:

- 1.1 A number of the proposed amendments to the proposed ISA, when considered in aggregate, have the effect of extending an auditor's responsibilities, with respect to other information, beyond the objective of ensuring other information does not undermine the credibility of the financial statements of an auditor's report thereon. Some of the proposed responsibilities seem to go beyond that objective, extending to potentially inferring assurance on the credibility of the other information itself. Such modification of auditor responsibilities goes beyond that which can be reasonably undertaken by an auditor within the scope of a financial statement audit. In order to put an auditor's role into clear perspective, we recommend a number of changes to the proposed ISA that reinforce the focus on clarifying and providing more transparency as to an auditor's current responsibilities with respect to other information, and avoid changes that, we believe, may give the impression that an auditor's responsibility has been expanded to address the credibility of the other information.
- 1.2 In turn we are concerned that there may be an expectation of users of the financial statements that an auditor expresses an opinion or conclusion on the credibility of the other information. The suggested statement to be included in an auditor's report on the financial statements allows scope for the users of the financial statements to take assurance from that statement regarding the credibility of the other information, even though there is no basis to do so, when either "*[w]e have nothing to report in this regard*" or "*[a]s described below, we have determined that such a circumstance exists*" is stated, even though the illustrative wording also states that "*we have not audited the other information and do not express an opinion or any form of assurance conclusion thereon*".<sup>1</sup>
- 1.3 The proposed ISA is vague regarding the timing of an auditor's procedures relating to other information and determining when an auditor's responsibilities are met. The

---

<sup>1</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph A48

proposed ISA seems to imply an open ended responsibility for an auditor beyond the date of the auditor's report with regard to other information that is included at a later date in documents accompanying the audited financial statements

1.4 It is unclear whether the proposed ISA requires an auditor to read and consider the other information for any internal material inconsistency. For example, if the entity includes certain information in the directors' report and discloses more detailed information thereon in the entity's integrated report, is an auditor required to consider whether there is any material inconsistency between the other information disclosed in the directors' report and that disclosed in the integrated report? Such other information may not form part of the financial or non-financial information that is covered by the financial statement audit or may not form part of an auditor's knowledge gained during the course of the audit. We also believe that an auditor's consideration of whether there is material inconsistency in the context of the other information as whole, in addition to requiring an auditor to consider whether there is a material inconsistency in the context of an individual piece of the other information is necessary.

1.5 There are foreseeable implementation challenges associated with the timing of the availability of other information provided to an auditor, the range of information that needs to be addressed as other information, the timing of completion of the audit and timing of the release of the other information by the entity. We believe this is largely due to the following factors:

- Variability in the annual report content across jurisdictions, along with variability in required reporting deadlines depending on type of entity e.g. listed, public / private or public sector entities, or entities that prepare an annual report on a voluntary basis).
- Auditor responsibilities regarding other information may vary significantly between jurisdictions depending on the timing of availability of other information. In many jurisdictions the entity's financial statements and an auditor's report thereon may be dated and issued before other information, or a substantial portion thereof, has been prepared or issued by the entity, and therefore obtained by an auditor. Auditor reporting on other information may be restricted or constrained to the extent that some / all other information is not available at the date of an auditor's report on the financial statements.

We encourage the IAASB to avoid the situation where the proposed ISA would impose a higher level of responsibility on auditors who obtain all / most of the other information prior to the date of an auditor's report for the financial statement audit, than would apply for auditors who only obtain some / all of the other information after the date of the auditor's report, particularly regarding an auditors' reporting responsibilities. We recognise that this situation is typically not within an auditor's control, but believe an auditor's reporting responsibilities should be aligned as far as possible. For this reason, we favour a transparent approach to auditor reporting on other information that retains the exception-based reporting model which would only require an auditor's report to report on an uncorrected material misstatement of other information identified prior to the date of the

auditor's report.

## 2. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

The IAASB is seeking comments on the following specific matters:

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.*

### Response:

#### Scope of the proposed ISA

1. The fundamental rationale for an auditor's work relating to other information is to address the risk that a material misstatement of the other information "*may undermine the credibility of the financial statements and the auditor's report thereon*"<sup>2</sup>. This purpose distinguishes the focus of performance of the auditor's work under the proposed ISA from the overall objectives of an auditor in conducting an audit of the financial statements<sup>3</sup>.
2. However, there appears to be an inconsistency between the wording used in paragraph 3 and paragraph 11 of the proposed ISA. Paragraph 3 refers to "...*read and consider the other information...*" while paragraph 11 states "...*having read the other information... To consider...*" Paragraph 11 uses the word "*consider*" as part of the work effort for each identified category. We recommend that the wording in paragraph 3 be aligned to the wording used in paragraph 11 of the proposed ISA, as follows:

*"This ISA requires the auditor to read ~~and consider~~ the other information ~~because other information that is materially inconsistent with~~ and in so doing, consider whether there is a material inconsistency between the other information and the financial statements or the auditor's knowledge obtained during the course of the audit because such material inconsistencies may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared".*

3. We understand the IAASB's proposal to exclude securities offering documents from

---

<sup>2</sup> Proposed ISA 720 (Revised), paragraph 3

<sup>3</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 11

the scope of other information in the proposed ISA, but we believe that the IAASB should not disregard the need for a separate project to address the minimum level of work required from an auditor on such documents. This may be achieved by, for example, developing a separate international standard thereon that addresses the variety of national requirements on securities offering documents. National legislation may supplement the requirements set in an international standard, if necessary, for those jurisdictions where national legislation is more stringent.

#### *Objectives of the proposed ISA*

4. The objectives of an auditor in the proposed ISA are to be understood in the context of the overall objectives of an auditor for an audit of financial statements as set out in ISA 200.<sup>4</sup> We believe it is important to clearly communicate in the proposed ISA that the objectives and responsibilities of the auditor regarding the other information have a different focus to those of ISA 200 to reduce the prospect that the auditor's responsibilities regarding other information may be misunderstood. This can be achieved by including within the objectives of an auditor in the proposed ISA a reference to the specific purpose of an auditor's work performed relating to other information, as explained in paragraph 3 of the proposed ISA. Accordingly, we recommend that the wording in paragraph 11(c) of the statement of the auditor's objectives in the proposed ISA be amended as follows:

*“To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be material misstated, because:*

- (i) *A material inconsistency may reveal a material misstatement of the other information, a material misstatement in the financial statements or otherwise indicate that the auditor's understanding of the entity and its environment needs to be updated; or*
- (ii) *A material misstatement of the financial statements or a material misstatement of other information may undermine the credibility of the financial statements and the auditor's report thereon.”*

#### *Definitions*

5. We agree with the introduction of the defined term “misstatement of the other information”<sup>5</sup>, but do not agree with the explanation contained within the definition of when misstatements are considered to be material. We do not believe it is appropriate to extend the concept of materiality for the financial statement audit, as described in ISA 320<sup>6</sup>, to the auditor's consideration of other information because the proposed ISA does not require an auditor's opinion on the financial statements to cover the

---

<sup>4</sup> ISA 200, paragraph 11

<sup>5</sup> Proposed ISA 720 (Revised), paragraph 12(b)

<sup>6</sup> ISA 320, *Materiality in Planning and Performing an Audit*

other information nor is an auditor required to obtain audit evidence beyond that required to form an opinion on the financial statements.

6. Further, following from paragraph 4 of the proposed ISA that references the auditor's ethical obligation to not knowingly be "*associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly...*", we agree with the reference in this definition to other information being materially misstated when it is *misleading*. However, we do not agree with the wording "*for a proper understanding of the matter*". We do not believe this wording is appropriate as it seems to imply a lower threshold that would require a substantially different perspective than would be the case to determine whether other information is misleading. As a result, we recommend that the wording in paragraph 12(b) of the proposed ISA be amended as follows:

*"Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary where such omission or obscurity would be misleading ~~proper understanding of a matter~~). Misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users by undermining the credibility of the financial statements and the auditor's report thereon, recognising that the other information is only part of the overall information available to users."*

7. We further recommend that the proposed ISA include application guidance to assist an auditor in determining when an entity, through disclosures in the financial statements, "crosses the line" into a misstatement of the other information by virtue of omission of that related other information from the annual report. In addition, we do not believe that the proposed ISA should infer that an auditor has a responsibility to address the completeness of the other information, and we recommend that the proposed ISA should include application guidance to clarify this matter.

#### *Requirements for Reading and Considering Other Information*

8. We agree with the primary requirements in paragraphs 14(a) and 14(b) to read the other information to consider whether there is a material inconsistency. However, we do not believe that paragraph 14(c) forms part of the principal objective of the auditor's work under the proposed ISA, but rather as a possible outcome of the auditor's work effort under paragraph 14(a) and (b). For that reason, we recommend that paragraph 14(c) become a separate requirement (following paragraph 15 of the proposed ISA) that clearly states the further requirement for an auditor to remain alert for other indications (i.e. unrelated to material inconsistencies between the other information and the financial statements or the auditor's knowledge obtained during the course of the audit) that the other information appears to be materially misstated.
9. Further, we recommend that paragraph A33 of the proposed ISA be incorporated into

this separate requirement as essential explanatory material, to aid understanding that this requirement applies when other information extends beyond the financial statements or the auditor's knowledge obtained during the course of the audit.

10. We are concerned that use of the word "*limited*" in the requirement for an auditor to perform procedures for the purpose described in paragraph 15 of the proposed ISA may be read as implying a restriction on the nature, type or extent of procedures to be performed by an auditor, notwithstanding the guidance that is provided in paragraph A24. We believe that an auditor should be required to simply perform those procedures that an auditor applying professional judgment considers appropriate in the circumstances, to avoid the inference that the procedures are required to be "limited" (i.e. limiting an auditor's professional judgment applied to an auditor's consideration). We recommend that the wording in paragraph 15 of the proposed ISA be amended as follows:

*"As the basis for the consideration in paragraph 14(a), the auditor shall perform ~~limited~~ such procedures as the auditor, applying professional judgment, considers appropriate in the circumstances for the purpose of ~~to evaluate~~ evaluating the consistency between the amounts..."*

11. In order to align the terms used in the proposed ISA with the terms used in other ISAs, we recommend that the wording used in paragraph A21 of the proposed ISA should be amended as follows:

*"... factors that may be taken into account when determining the appropriate individuals members of the engagement team to address the requirements of paragraph 14-15, include:..."*

12. We believe that paragraph A26 of the proposed ISA should be deleted as it is a duplication of the third bullet contained in paragraph A23.

#### *Response when an Auditor Determines that Other Information is Materially Misstated*

13. We believe that the proposed ISA can be enhanced regarding the action(s) to be taken by an auditor if an auditor determines that a material misstatement exists in other information obtained after the date of the auditor's report. We encourage the IAASB to consider expanding either the requirements, or at least the application material contained in the proposed ISA, indicating the appropriate actions an auditor shall take in those circumstances.
14. The requirement in paragraph 19(a) of the proposed ISA for the auditor to "perform procedures necessary under the circumstances". We feel this is too vague, and suggest including the same wording as in paragraph 17(a), i.e. "*determine that the correction has been made*".

#### *Public sector perspective*



15. An auditor in the public sector may not only issue a report to a legislature as indicated in paragraph A42 of the proposed ISA. We recommend that the wording in paragraph A42 of the proposed ISA be amended as follows:

*“... may issue a report to the legislature providing details of the matter or undertake other appropriate actions.”*

16. In the public sector in South Africa an annual performance report, that is subject to a separate assurance engagement at the same time as the audit of the financial statements is performed, is included in an annual report. We believe that guidance is required in the proposed ISA on how an auditor should deal with other information included in the annual report that is subject to a separate assurance engagement.

#### *Documentation*

17. We believe that the expectations regarding an auditor’s responsibility to maintain appropriate documentation regarding work done for the other information should be clarified in the proposed ISA. There should be better explanation of the link between the proposed ISA and ISA 230<sup>7</sup> concerning the documentation required to support the audit opinion. It may not be clear that the auditor’s work effort under the proposed ISA, albeit not relating directly to the auditor’s opinion on the financial statements, may indirectly affect the procedures performed, evidence obtained and conclusions formed for the financial statement audit.

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

### **Response:**

18. We believe that the proposals in the proposed ISA are capable of being interpreted and applied consistently. However, because of the diversity in jurisdictional requirements there is likely to be differences in practice as to how the requirements are applied across jurisdictions. Some common differences that may exist include:
- The diversity that exists in the types of reports and documents issued that could meet the definition of other information;
  - That in some jurisdictions an auditor cannot issue an auditor’s report until an auditor has received the entire annual report, while in other jurisdictions an auditor may not receive an annual report until well after the date of the auditor’s report; and
  - That in some jurisdictions an auditor is permitted to reissue an auditor’s report, while in others an auditor cannot.

---

<sup>7</sup> ISA 230, *Audit Documentation*

19. We acknowledge that addressing differences that arise from jurisdictional requirements is not something within the IAASB's mandate. Therefore, we believe it will be important that the IAASB considers feedback from local regulators as to whether they believe the proposed ISA can be applied in their jurisdiction in conjunction with their current jurisdictional requirements and practices.
  20. We further believe that consistency will only be possible / practicable within a jurisdiction if those local regulators, with an interest in this topic, take the initiative to align key role players' understanding of an auditor responsibility for other information contemplated in the proposed ISA. This should include clarification of the scope of "other information" and the defined term "annual report" for different classes of entities in the context of their reporting responsibilities.
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.*

**Response:**

21. We are generally in agreement with the wording of the proposed statements in the auditor's report identifying the other information obtained by the auditor prior to the date of the auditor's report and describing the auditor's responsibilities with respect to the other information.<sup>8</sup>
22. However, we have some concern that the statement of the auditor's responsibilities for other information may be misinterpreted by users of the auditor's report, for example, as follows:
  - When describing the auditor's responsibilities with respect to the other information, the statement currently states that an auditor's responsibility is "*...to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit...*". The last paragraph of the statement states that "*...If we determine that the other information is materially misstated, we are required to report that fact...*". A user of the auditor's report who does not have knowledge of the requirements of the proposed ISA may not be able to make the link between the first part of the statement identified that refers to "*material inconsistency*" and the second part of the statement that refers to "*material misstatement*", because they would not understand that once an auditor has identified that a material inconsistency appears to exist (or becomes aware of other information that appears to be materially misstated) an auditor is required to perform procedures to determine whether a material misstatement exists (either of the other information or of the financial statements).
  - The statement as included in the proposed ISA states "*...If we determine that the*

---

<sup>8</sup> Proposed ISA 720 (Revised), paragraphs A48 and A49

*other information is materially misstated, we are required to report that fact. We having nothing to report in this regard.”* While we understand this reporting requirement is intended to apply to the documents read by an auditor up until the date of the auditor’s report, it may be read and understood by a user of the auditor’s report as implying that an auditor is required in all circumstances to report a material misstatement identified in other information. However, this is not factually correct, as there is no requirement in the proposed ISA for an auditor to report a material misstatement in other information received after the date of the auditor’s report on the financial statements. We recommend that the wording in the proposed statement be amended to clarify the reporting requirements of an auditor, to avoid possible misinterpretation by users of the auditor’s report.

23. Such a statement may also potentially be viewed by users of the auditor’s report as providing a basis for the user to derive assurance from the auditor’s statement (even though not intended). Of key concern is that when an auditor only obtains some / all of the other information after the date of the auditor’s report, such a statement in an auditor’s report may be inherently deficient as an auditor is not fully informed by consideration of the other information as a whole.. The statement “*we have nothing to report*” therefore has the potential to mislead the report users, no matter what caveats are made by an auditor.
24. For the above reason, we prefer the approach of requiring only paragraph 21(d)(ii) of the proposed ISA together with the other requirements contained in paragraph 21 to apply, i.e. an auditor who has determined that there is an uncorrected material misstatement in the other information obtained prior to the date of the auditor’s report is required to include a statement in the auditor’s report indicating that there is a material misstatement in the other information.
25. This approach has the advantage of being clear and transparent, both for an auditor and for the user of the auditor’s report and the other information. It avoids the expectation gap risks associated with the statement in paragraph 21(d)(i) of the proposed ISA.
26. To address these concerns mentioned above we recommend that the statement of the auditor’s responsibilities relating to other information described in paragraph A48 of the proposed ISA (to be included in all auditor’s reports when proposed ISA 720 applies) be revised as follows:

*“Other Information*

*The other information obtained at the date of this auditor’s report is the [information included in the X report, other than the financial statements and the auditor’s report thereon.]*

~~*We have not audited the other information and do not express an opinion or any form of assurance conclusion there on.*~~*Our responsibility is to read this the other*

*information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, ~~our responsibility is~~ we also ~~to~~ remain alert for indications that the other information not related to the financial statements or our knowledge obtained during the course of the audit appears to be materially misstated. If we determine that the other information we have read up to the date of the auditor's report is materially misstated, we are required to report that fact. ~~We have nothing to report in this regard.~~*

*We are not responsible for auditing the other information and, accordingly, do not express an opinion or any form of assurance conclusion there on.*

27. The IAASB noted in the explanatory memorandum to the proposed ISA that management's responsibilities for the other information are "*widely understood*". However, we believe that in the interests of transparency and in the narrowing of any potential expectations gap, a statement relating to management's responsibilities with regards to the other information, including a description of their responsibilities for the preparation and presentation of the other information, should be made in the auditor's report and may be addressed in the management responsibility section of the auditor's report.
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.*

**Response:**

28. We agree with the IAASB's conclusion that an auditor should be required to read other information whether it is received before or after the date of the auditor's report.
29. We also believe that not requiring identification of other information not received prior to the date of the auditor's report and not requiring an auditor to subsequently report thereon is an appropriate approach considering the differing jurisdictional requirements in this regard.

**3. REQUEST FOR GENERAL COMMENT**

- (a) *Preparers (including Small and Medium-Sized Entities (SMEs)), and users (including Regulators)*—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).

**Response:**

Comments provided in this submission include comments obtained from the IRBA, the South African Audit Regulator and National Standard Setter, the Auditor General – South Africa, and from small, medium and large audit firms. These comments do not include comments from preparers or from users of auditor’s reports such as investors.

- (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISA, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

**Response:**

South Africa adopted the IAASB’s International Standards in 2005 and continues to prescribe them for use by registered auditors. The IRBA does not foresee the types of difficulties that may be associated with a developing nation environment in applying the proposed ISA in South Africa.

- (c) *Translations*—Recognising that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.

**Response:**

The IAASB International Standards are adopted as issued by the IAASB, and are not presently translated in South Africa.

- (d) *Effective Date*—Recognising that the proposed ISA results in changes to the auditor’s report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB’s Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12-15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would likely provide a sufficient period to support effective implementation of the ISA.

**Response:**

We are supportive of the IAASB’s view that, to the extent possible, the effective date of the proposed ISA should be aligned with the effective date of the revisions arising from the IAASB’s Auditor Reporting project.

\*\*\*\*\*