Submitted electronically to jamesgunn@ifac.org

Mr James Gunn
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Dear James

Comments on the 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 Thereon

The Independent Regulatory Board for Auditors (IRBA) is 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.

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

Our comments have been prepared by a Task Group of the Committee for Auditing Standards (CFAS), the committee responsible for standard setting in South Africa 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.

Kindly e-mail me at svanesch@irba.co.za, or phone on direct line: +27 87 940 8871 if further clarity is required on any of our comments.

Yours faithfully

Sandy van Esch
Director: Standards

Established in terms of Act 28 of 2005
1. GENERAL COMMENTS

We support the IAASB’s efforts in developing the proposed ISA and in particular the IAASB’s objective to clarify the auditor’s roles and responsibilities towards other information. We suggest that he finalisation of the proposed ISA take into account the implications of final changes to be made to ISA 700 arising from the present IAASB reporting project.

We, however, have the following overall concerns that are articulated more fully in our responses to the specific questions that follow.

1.1. Scope of the proposed ISA. We support the extension of the scope of the proposed ISA to include other information that accompanies the audited financial statements and the auditor’s report thereon that has a primary purpose of providing commentary to enhance the users’ understanding of the “audited financial statements”. However, we do not believe that it should also have a primary purpose of providing commentary to enhance the users’ understanding of “the financial reporting process” as defined in Paragraph 9(c)(ii). An auditor does not express assurance on the “financial reporting process” in the auditor’s report on financial statements. The definition also appears inconsistent with the scope paragraphs of the proposed ISA.

1.2. The timing of the auditor’s procedures relating to other information and when the responsibility ends. The 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 included at a later date in documents accompanying the audited financial statements.

1.3. The absence of a framework that sets out management’s responsibilities with respect to other information. The proposed reporting responsibilities in paragraph 16 and A57 make no reference to any proposed changes to the “management responsibilities” paragraph in the auditor’s report, with respect to other information in documents accompanying the audited financial statements. We suggest that the management responsibilities paragraph in an auditor’s report, or the statement regarding the other information read and considered, includes a description of management’s responsibilities with respect to the preparation and presentation of the other information in documents accompanying the audited financial statements. Furthermore we suggest that the description of management responsibilities identify those accompanying documents agreed with an auditor, or as required by legislation or financial reporting standards, to be within the scope of that “other information” to be read and considered by an auditor.

1.4. Enhancing the auditor’s responsibilities. The auditor’s primary responsibility in reading and considering the other information is to enhance the credibility of the “audited financial statements” by identifying other information that is materially inconsistent with those audited financial statements. We are concerned that the illustrative wording in paragraph A57, of the statement to be included in the auditor’s report, may be interpreted as expanding the auditor’s responsibilities to include enhancing the credibility of the “other information” and may be interpreted by users as providing assurance thereon.

1.5. Widening the “expectation gap”. We are concerned that there may be an expectation of users that an auditor express assurance on the credibility of the other information. The suggested statement to be included in the auditor’s report appears to provide some other form of assurance, even though the illustrative wording in paragraph A57 states that “neither an audit opinion nor a review conclusion has been expressed”.

1.6. Signing of the auditor’s report prior to receiving all other information. We are concerned that paragraph 10(b) and paragraphs A22, A25 and A28 in the proposed ISA recognise circumstances where certain other information may not be available, or not yet finalised by management, for the auditor to consider at the time of signing. If an auditor signs the auditor’s report prior to certain other information being made available, that auditor should identify those accompanying documents that were not available at the time of signing in an Other Matters paragraph to the auditor’s report.
Alternatively, we suggest that an auditor not be permitted to sign and date the auditor's report before having read and considered all other information in the "final version" of the accompanying documents that are within the scope of the proposed ISA.

1.7. **Clarity of definitions.** We are concerned that the definition "inconsistency in other information" is not sufficiently clear and that additional terms such as "read and consider", "accompanying documents" and "primary purpose" should be defined more clearly. Corporate legislation in some jurisdictions specifies those documents accompanying audited financial statements that an auditor is required to "read and consider" when determining whether that other information is inconsistent with the audited financial statements.

1.8. **Definition of Material Misstatement of Fact.** A material misstatement of fact is defined in the IAASB Glossary as "other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements." We are concerned that the term "material misstatement of fact" has not been included in the Definitions in the proposed ISA and suggest that this be included.

1.9. **Objectives of the auditor.** Paragraph 8(a) identifies the objective of the auditor as "having read and considered the other information, is to respond appropriately when, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, the auditor identifies (i) There may be a material inconsistency in the other information; or (ii) The audited financial statements may be materially misstated." We are concerned that the auditor is only required to respond in light of his / her understanding of the entity and it environment acquired during the course of the audit. While this relates to information obtained from any relevant source during the audit, it does not address a need for the auditor to respond to other information acquired in any other manner e.g. arising from any other assurance engagement performed by the auditor, or the audit firm, for that entity, such as, assurance provided on a sustainability report.
2. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

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?

Response:

1. We are supportive of the need to clarify an auditor’s roles and responsibilities with regards to other information. In particular we agree with the IAASB’s extension of the scope of the proposed ISA to include other information in those documents identified as accompanying the audited financial statements, and the auditor’s report thereon, that has a primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements. In particular, we believe that there is a need to strengthen an auditor’s responsibilities towards other information which may be of public interest.

2. We are concerned that the proposed ISA does not clearly define “other information” and “initial release” and seems to imply an open ended responsibility for an auditor beyond the date of the auditor’s report with regard to other information. As a result it may be difficult for an auditor to determine when to stop reading and considering other information which will have an effect on costs and benefits thereof to the audit engagement.

3. It seems that the costs involved for auditors in complying with the requirements of the proposed ISA might be greater than that envisaged by the IAASB. This would be due to:
   3.1. the extent of work required to comply with the objectives of the proposed ISA;
   3.2. the fact that more senior personnel are likely to be involved in reading and considering the other information (paragraph A33); and
   3.3. the lack of clarity as to when the auditor’s responsibility ends with regard to other information in accompanying documents that is not finalised and/or available, at the date of the auditor’s report.

4. We believe that users of financial statements will benefit from extending an auditor’s current responsibilities towards other information but we do not believe that this can be meaningfully achieved in the proposed ISA. A number of the changes in the proposed ISA, when considered in aggregate, have the effect of extending the auditor’s responsibilities, with respect to other information, beyond the credibility of the financial statements to infer assurance on the credibility of the other information itself. This may be viewed as extending an auditor’s responsibilities beyond what can be reasonably undertaken by an auditor within the scope of a financial statement audit.

5. The wording of the auditor’s objectives in paragraph 8 coupled with the definition of an inconsistency in the other information (paragraph 9(a)), and the nature and extent of matters to be considered suggested in (paragraphs A37 to A43) in the Application Material may be performed to support an auditor’s “consideration” of other information may lead one to conclude that the proposed ISA has expanded an auditor’s responsibilities beyond the credibility of the financial statements to include the credibility of the other information. Although paragraph A41 clarifies that the expansion of an auditor’s responsibilities, must be read in the context of the audit of the financial statements, because the scope and subject matter covered by the other information in the proposed ISA is often much broader than the information addressed in audited financial statements, the extent of work effort may be misunderstood by auditors and users.
6. In this context, in order to put an auditor’s role in perspective, we recommend that revisions to the proposed ISA focus on clarifying and providing more transparency as to the auditor’s current responsibilities with respect to other information and avoid making changes that give the impression the auditor’s responsibility has been expanded to address the credibility of the other information.

7. Initial release of the audited financial statements: Paragraph A27 of the proposed ISA states that an 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, Subsequent Events (ISA 560), and paragraph A55 of the proposed ISA. Paragraphs 10 - 17 of ISA 560 deal with “facts that become known to the auditor after the date of the auditor’s report but before the date the financial statements are issued” and recognise that: “the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report”. However, the definition of an “initial release” of the audited financial statements is confusing when compared with the reference in ISA 560 paragraph 10, regarding the “date the financial statements are issued”. Paragraph 14(b) and A55 of the proposed ISA refer to “Reading and considering the other information and discussion with management after the date of the auditor’s report...”. We believe these paragraphs may contradict one another and request that the IAASB provide clarity in the proposed ISA whether the auditor has any obligation to perform any procedures relating to other information in accompanying documents after the date of the auditor’s report, but before the audited financial statements are issued, unless a fact becomes known to the auditor that had it been known at the date of the auditor’s report may have caused the auditor to amend the auditor’s report\(^1\). We believe reading and considering other information after the date of the auditor’s report would be over and above what is expected of the auditor after the date of the auditor’s report for the financial statement audit in terms of ISA 560. We also note the proposed consequential and conforming amendments do not propose any amendment to ISA 560.

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?

Response:

8. We agree that the scope of the proposed ISA should be broadened to include documents that accompany the audited financial statements and the auditor’s report thereon.

9. We are however concerned about the guidance contained in paragraph A13 that potentially scopes in a much broader population of other information that potentially does not provide commentary to “enhance the users’ understanding of the audited financial statements or the financial reporting process”. Paragraph A13 lists examples of accompanying documents that do not have a primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements or the financial reporting process and accordingly would usually be outside the scope of the proposed ISA. The last sentence of this A13, however, states that if any information of this nature is contained in a “document that is within the scope” of the proposed ISA, such information would be subject to the requirements of the proposed ISA 720 (Revised), including for the auditor to read and consider it”. This may have the effect of including within the scope of the proposed ISA, other information that does not have a “primary purpose of providing commentary” related to the financial statements, or is only tangentially related, in which case it would be unclear as to what

\(^1\) Proposed ISA 720 (Revised), paragraph 9(b)

\(^2\) ISA 560 paragraph 10
is expected from, and what might be the expected outcome of having the auditor "read and consider" such other information. We believe the proposed ISA may lead to confusion on the part of users as to what documents are or are not included within the scope of the auditor's responsibilities, as well as inconsistency in practice.

10. To address these issues, we believe that other information should only be included in the scope of the proposed ISA if such information has the primary purpose of providing commentary to enhance the user's understanding of the audited financial statements. Such information should be within the scope of the proposed ISA regardless of whether it is included within a document that contains the audited financial statements and the auditor's report thereon or in a document accompanying the audited financial statements and the auditor's report thereon. In order to implement the above recommendation, we believe the concept of "primary purpose" needs to be very clear and understandable, such that it facilitates consistency in understanding and application. We believe that the concept is not sufficiently explained in the proposed ISA, including how the auditor would be expected to distinguish between other information that has a primary purpose of providing commentary to enhance the user's understanding of the audited financial statements or the financial reporting process and other information that does not have this primary purpose. We therefore believe that the IAASB should define this term more clearly.

11. We request the IAASB to consider revising ISA 580 Written Representations to include specific representations from management, and where appropriate those charged with governance, about the other information that will be included in documents containing the audited financial statements or in documents that will accompany the audited financial statements, and the completeness and accuracy of such information.

12. We acknowledge the fact that increasingly, entities publish other information on their websites and that this is normal practice in many jurisdictions. We note that such information may be amended at any time - often without the auditor's knowledge that this has occurred. We support extending the scope of the proposed ISA to include documents that accompany the financial statements in principle, but the practical issues surrounding the publishing of other information on a website present some significant challenges to an auditor in fulfilling his / her responsibilities in terms of the proposed ISA. We suggest that these challenges be considered and addressed by the IAASB in order to clarify an auditor's responsibilities with regards to other information published on websites. Some of these practical issues include:

12.1. The implication for an auditor's responsibilities where management regularly updates the other information after that auditor has already read and considered that other information. The versions of information on the website that have been read and considered by the auditor need to be differentiated from updated versions of the same information that might contain material changes; and

12.2. The assessment by an auditor of the internal control surrounding an entity's website such as access controls to amend information that an auditor may be expected to be associated with on the website. It may be necessary for that auditor or another qualified assurance practitioner to perform an assurance engagement of the related controls.

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?

Response:
13. Although we understand the intent of the IAASB when including the new definition of "initial release" we are concerned that the definition has not been articulated clearly and in an understandable way and believe that the definition may be inconsistently applied across different jurisdictions.

14. As mentioned in our general comments above, we are concerned that the proposed ISA permits an auditor to sign his / her auditor’s report before he / she has read and considered all other information. We suggest that the auditor not be permitted to sign his / her auditor’s report until he / she has considered all other information being the final version of the documents that are within the scope of the proposed ISA. As a result, the definition of "initial release" would not be necessary.

15. We are concerned that the "initial release date" may be interpreted as different to "the date the financial statements are issued" as defined in ISA 560. We therefore believe that it should be made clear in the proposed ISA that an auditor does not have any responsibility relating to other information included in documents accompanying the audited financial statements, that are included after the date of the auditor’s report, beyond the auditor’s responsibility in accordance with ISA 560.

16. This will place the responsibility on management to ensure that all relevant other information is prepared and supplied to the auditor before the date of the auditor’s report. We understand, however, that the setting of this responsibility would not be within the mandate of the IAASB. As such, we believe that it will be important for the IAASB to collaborate with others, including accounting standard setters (e.g. the International Accounting Standards Board [IASB], the Financial Accounting Standards Board [FASB]), regulators (e.g. the International Organization of Securities Commissions [IOSCO]), and others (e.g. investors, preparers), as such collaboration will help to drive more consistency across jurisdictions.

17. Paragraph 10 requires the auditor to discuss with management the nature and timing of the documents that are expected to be issued in connection with the initial release and determine whether these documents are within the scope of ISA 720. In today’s environment, financial statements and other information may be issued in hard copy or they may be made available, for example, to users electronically on the entity’s website. In addition, entities often produce more than one type of document to include in or accompany audited financial statements in order to address the needs of more than one group of user or to meet the requirements of more than one jurisdiction.

18. It would be helpful if the proposed ISA included application and other explanatory material that explained how the concept of "issued in connection with the initial release" would be applied to some of the more common scenarios that exist today. In particular, it would be helpful if the proposed ISA could explain whether the concept is linked to the timing of release of the other information e.g. simultaneously with or shortly after the filing of the financial statements, and how it would be applied when information is released electronically and / or in more than one jurisdiction. Given that there are a significant number of issuers who file in more than one jurisdiction, it would be helpful, if application and other explanatory material could clarify the initial release date for such issuers.

19. It is important that the auditor obtain management’s agreement and acknowledgement as what information is considered to be “other information” and when that information will be made available to the auditor. We recommend that the proposed ISA make reference to the auditor obtaining this agreement from management when agreeing the terms of the engagement and the responsibilities of management under ISA 210 Agreeing the Terms of Audit Engagements. Further, we recommend that the auditor
should be required to obtain written representations (ISA 580 Written Representations) from management in order to evidence that management has:

19.1. Fulfilled its responsibilities in relation to other information; and

19.2. Provided all relevant other information to the auditor.

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?

Response:

20. We believe that securities offering documents should be excluded from the scope of the proposed ISA contrary to paragraph 3(b). We believe that including a securities offering document in the scope of the proposed ISA, even in these limited circumstances, may be a concern, especially if there is a significant time delay between the initial release of the relevant audited financial statements and the issuance of the securities offering document. A securities offering document may include information that relates to the period subsequent to the date of the auditor’s report and may appear to contain material inconsistencies as defined by the proposed ISA. In addition, the primary purpose of a securities offering document is to meet the legislative requirements of a jurisdiction when offering securities to the general public and is not simply to provide commentary to “enhance users understanding of the audited financial statements”.

21. In paragraph 3 of the proposed ISA, it states that the proposed ISA does not apply to preliminary announcements of financial information. We request the IAASB to consider defining the concept of “preliminary announcements”, as this phrase might have a different meaning in different jurisdictions, and accordingly, it may not necessarily be clear as to the reasons for their exclusion from the scope of the proposed ISA. In particular, paragraph A5 distinguishes between a press release issued in connection with an initial release and a press release issued in connection with a preliminary announcement. In some jurisdictions, these could be the same press release. In South Africa, for example, a preliminary announcement is defined by the South African securities exchange in its JSE Listings Requirements as a “preliminary report – a financial report for a full financial year, published voluntarily by an issuer in advance of being required to do so (i.e. within three months after an issuer’s financial year-end)” that does not comprise a complete set of financial statements.

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?

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?
Response:

Part a:

22. We believe that the phrase "in light of the auditor's understanding of the entity and its environment acquired during the course of the audit" should be amended to read: "based on the auditor's understanding of the entity and its environment acquired during the course of the audit of the financial statements".

23. Using the phrase "during the course of the audit" may be understandable by the auditor but may create an expectation gap between the auditor and the users of the financial statements. Users of the financial statements may interpret "the audit" as being a wider interpretation of the term than what an auditor who would interpret it to be "the audit of the financial statements" only.

24. It is questioned whether the phrase "acquired during the course of the audit" may restrict and narrow the scope of the proposed ISA so that other information acquired from sources outside of the audit engagement would not be read and considered, for example, information in a sustainability report published in an accompanying document containing audited financial statements.

25. We believe that the proposed requirements and guidance are helpful in enabling the auditor to understand what is meant to read and consider in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. An auditor is required to use the auditor's professional judgment to determine the nature and extent of the procedures to be performed on the other information.

25.1. However, the term "consider" in other International Standards on Auditing (ISAs) generally means "to reflect". We are concerned that the term "consider" in the proposed ISA has a different meaning. When read with paragraphs A28 to A43 which include the suggested "nature and extent of the auditor's work" provides a different perspective to the word "consider". The term "read and consider" should be defined in the proposed ISA.

Part b:

26. We agree with requiring the auditor to read and consider the other information for consistency with the audited financial statements since this focuses the auditor's responsibilities on the credibility of the financial statements based on the understanding acquired during the audit. However, the significant work effort included in application and other explanatory material to support the auditors' consideration of other information (paragraphs A28 to A43) leads one to conclude that the proposed ISA has expanded the auditor's responsibilities beyond the credibility of the financial statements to include the credibility of the other information. For the reasons noted above, we do not believe that this is appropriate.

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?

Response:

27. We do not believe that the definitions of the terms "inconsistency in the other information" and "a material inconsistency in the other information" are appropriate.

28. We are concerned that the definition of "inconsistency in the other information" is written in a way that portrays positive assurance whereas the statement required to be included in the auditor's report regarding other information is a negative statement.
29. We are concerned about part (ii) of the definition of “inconsistency in the other information” that requires the auditor to determine whether the other information is presented in a way that “omits or obscures information that is necessary to properly understand the matter being addressed in the other information”. We believe this is implying that it is the auditor’s responsibility to determine if the other information is complete. This may be particularly challenging for the auditor. We don’t believe the auditor should have a responsibility to determine if the other information is complete. We also don’t believe that the auditor should have a responsibility for determining whether the other information obscures information necessary to understand the matter being addressed. We therefore suggest the IAASB remove part (ii) of the definition.

30. We are also concerned about the definition of “material inconsistency in the other information”. The IAASB should clarify the meaning of materiality in the context of this proposed ISA and whether materiality is intended to be the same as that used for purposes of the financial statement audit. Based on the last sentence of paragraph 9(a) of the proposed ISA it appears that a different materiality threshold may be applied in considering whether an inconsistency in the other information is material, i.e. in that it is to be considered in light of the audited financial statements and the other information taken as a whole. Given that the auditor is engaged to audit the financial statements and not the other information, it may be difficult for the auditor to determine a level of materiality based on the audited financial statements and the other information as a whole. It is also likely that this will result in confusion for auditors and will not be consistently applied.

31. We suggest modifying the definition of “inconsistency in the other information” to read as follows:

“Inconsistency in the other information – An inconsistency in the other information exists when the other information contains information that is incorrect relative to the audited financial statements, or the auditor’s understanding of the entity and its environment acquired during the course of the audit of the financial statements.”

7. Do respondents believe that users of the 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?

Response:

32. We believe that the users of the auditor’s report may understand that an inconsistency relates to an inaccuracy in the other information as described in the revised definition of “inconsistency in the other information” suggested in our response in point 31, to Question 6 above.

33. We believe, however, that for the users to understand that this inconsistency was identified in the process of reading and considering the other information based on the auditor’s understanding of the entity and its environment acquired during the course of the audit, the auditor’s reporting requirements should be enhanced in paragraph 16(c) of the proposed ISA as follows:

“A statement addressing whether, in the process of reading and considering the other information based on reading and considering the other information obtained the auditor’s understanding of the entity and its environment acquired during the course of the audit, the auditor has identified material inconsistencies in the other information relative to such understanding or the audited financial statements, and, if so, a statement describing them”.

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34. We have a similar situation in South Africa where our Companies Act, 2008 includes the specified accompanying documents as part of the audited financial statements that an auditor is similarly expected to read (and consider) for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. Auditors include the following “Other matters” paragraph in the auditor’s report that may be modified in the event that inconsistencies are found and not rectified by management. Perhaps the suggested wording in the proposed ISA in paragraph A57 may include wording to indicate that: “These reports are the responsibility of the respective preparers.”

“Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 20XX, we have read the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.”

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 principle-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information 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?
   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?

Response:

Part a:

35. Yes, we support the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information, especially given the diversity in jurisdictional approaches to the types of other information and the manner in which it is communicated to the various stakeholders.

36. However, we are of the view that the work effort set out in paragraphs A28 to A43 of the proposed ISA, in particular the work effort relating to information that is directly reconcilable financial information (paragraph A37(c)) and the remaining other information (paragraph A37(d)), is more extensive that would ordinarily be applied, when “considering” the other information.

Part b:

37. Yes, we believe the categories of other information in paragraph A37 are appropriate. We agree that the guidance for the nature of each category is appropriate. Please refer to our comments to Question 8(c) for further discussion on the work effort.
Part c:

38. We believe that the work effort required by the proposed ISA is not sufficiently clear and may be misinterpreted by auditors. Concerns have been raised in response to some of the previous questions (specifically those related to the time period of the auditor’s responsibilities, the scope of documents and other information covered by the proposed ISA and the meaning of terms such as "consider" and "material inconsistency in the other information"). We believe further clarification is needed on each of these items in order to fairly determine the impact on expected work effort.

39. The auditor’s primary responsibility in reading and considering the other information is to enhance the credibility of the financial statements. We are concerned that the proposed ISA may be interpreted as expanding the auditor’s responsibilities to include enhancing the credibility of the other information.

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

Response:

40. Yes, we believe the inclusion of examples of qualitative and quantitative information included in the Appendix is helpful.

41. However, we are concerned that some of the examples (especially those listed under Qualitative Financial Information) are far removed from the expertise of "the average auditor".

42. We ask the IAASB to reconsider the examples and challenge whether the auditor will be able to consider all such information based on the understanding of the entity and its environment acquired during the course of the audit. For example, we do not believe auditors necessarily have expertise with respect to “trends in market prices of key commodities or raw materials” or “contrasts of supply, demand and regulatory circumstances between geographic regions”.

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?

Response:

43. Yes, we believe it is clear what the auditor’s response should be if the auditor discovers that the auditor’s understanding of the entity and its environment acquired during the course of the audit was incorrect or incomplete.

44. However, in order to avoid an open-ended responsibility on the auditor, we again suggest that the IAASB make it clear that the auditor does not have any responsibility relating to other information after the date of the auditor’s report, other than existing responsibilities in accordance with ISA 560.

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 the 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?
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?

Response:

Part a:

45. Please refer to responses to previous questions above where we have expressed concern with the terms "inconsistency in the other information", "material inconsistency in the other information", "primary purpose" and "consider".

Part b:

46. We are concerned that there is an expectation in the market that an auditor express assurance on the other information and that the proposed statement to be included in the auditor's report, even though it states that neither an audit opinion nor a review conclusion has been expressed, that some other form of assurance has been conveyed.

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?

Response:

47. We are supportive of the premise that no assurance is expressed on the other information based on the limited nature of audit procedures performed.

48. However as mentioned in response to question 11 above, we are concerned that there may be an expectation by users that an auditor expresses assurance on the other information based on the wording of the proposed statement to be included in the auditor’s report (in paragraph A58), even though it states that neither an audit opinion nor a review conclusion has been expressed, that some other form of assurance has been expressed.

49. We are concerned that the proposed ISA permits an auditor to sign his / her auditor’s report before he / she has read and considered all other information in all documents accompanying the audited financial statements that are included in the scope of the proposed ISA. We suggest that the auditor not be permitted to sign and date his / her auditor’s report until he / she has considered all other information being the final version of the documents that are within the scope of the proposed ISA. In practice, the final accompanying documents included in the glossies for publication, may be completed by management after the audited financial statements have been finalised and the auditor’s report signed.
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, include those 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 but do not include comments from preparers or other users 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, so we do not envisage any problems in applying this standard.

(c) Translations—Recognizing 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 and prescribed as is and are not presently translated in South Africa.

(d) Effective Date—Recognizing that the proposed ISA is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be 12-15 months after issuance of the final standard. 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:

Since the proposed standard is a substantive revision, we are supportive of an effective date for the standard being 12-15 months after issuance of the ISA, but request that cognisance be taken of the implications of any final changes to the reporting standards and ISA 700 presently being considered by the IAASB.