Dear Mr. Gunn,

The NBA appreciates the opportunity to comment on IAASB Exposure Draft ISA 720 “The auditor’s responsibilities relating to other information in documents containing or accompanying audited financial statements and the auditor’s report thereon” (hereafter called “ED”).

**General response**

The developments in the revised ISA 700 relating to auditor’s reporting are also relevant for the revised ISA 720. Auditor commentary might include commentary regarding other information. Therefore we recommend IAASB to publish the revised ISA 720 in conjunction with the revised ISA 700.

We also recommend IAASB to mention in the introduction that it is possible that certain other information might be subject to a separate assurance engagement with corresponding responsibilities.

**Request for Specific Comments**

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?**

Yes, there is a need to strengthen the auditor’s responsibilities with respect to other information. In the Netherlands it is already required to provide a statement on the management report. The text of this statement is: “Pursuant to the legal requirement ... (Dutch Civil Code), we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with ..., and whether the information as required ... has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by ...”.

Furthermore, we expect that auditors will be asked to expand their audit procedures and include parts of the management report within the scope of the audit and provide limited assurance thereon. As a consequence, this information will no longer be part of the other information, but part of a separate assurance engagement.
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?

Yes, we agree. However, all other information will likely contain information of a more qualitative or subjective nature or information that cannot be traced directly to the audited financial information (p. 12 ED). IAASB acknowledges that the auditor would not be expected to have an understanding of all this information and suggests that the auditor may focus on those items about which the auditor expects to have relevant understanding obtained during the audit. However, the users may expect that the auditor performed a full scope 720 test on all other information as included in the scope. This increases the expectation gap. The procedures performed are not in proportion to the responsibility. It should be clear which information is included in the other information. However, this should not result in a large enumeration of all other information in the statement. Furthermore it should be explicitly stated that the auditor performed a consistency check only on the other information based on his understanding relating to the financial statements.

The criterion for deciding whether an accompanying document is in the scope (p. 7 ED) “enhance the user’s understanding...” is not clear. The primary purpose of the documents might be different and difficult to understand. ‘Enhance the user’s understanding’ should be defined and added to the definitions. The term ‘accompanying’ should be defined further. It is stated that other information could be issued by other means (e.g. electronically).

Expanding the scope and responsibilities will result in additional time and costs. We recommend IAASB investigating the additional costs further and making this more concrete.

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?

Although the concept may be clear, it might give some difficulties in practice. In paragraph A26 is mentioned that the auditor is not precluded from dating the auditor’s report if the auditor has not obtained the other information. This could be misunderstood from the objectives as the auditor has not performed a consistency test on the other information if it is not available, but expected to become available. Perhaps it could be stated even more clearly that the auditor can finish the audit even if not all other information was received and as a result no consistency test was performed.

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?

We recommend scoping out security offering documents. Security offering documents are documents with a different scope/purpose and other objectives. The securities regulator determines the requirements for the assurance report related to the securities offering documents.

The specification situation in which security offering documents might be in the scope of ISA 720 is an exception to the general practice of securities offerings in the Netherlands. Only in limited situations the auditor’s report will include the additional paragraph referring to the securities offering document.

It is our view that it is not in favour of the users of financial statements and securities offering documents that there will be a difference in wording of the auditor’s report dependent on the fact whether or not the financial statements are published through the securities offering document for the first time.
Furthermore, it is our view that the current proposed wording of the auditor's report as included in paragraphs A57/A58 do not provide clarity to the users of the financial statements and the securities offering document about the exact responsibility of the auditor in connection with the prospectus. The securities offering document is a very extensive document that has a very specific purpose in the global capital markets.

Therefore we recommend IAASB addressing the auditor’s responsibility in connection with security offering documents in a separate Standard.

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?

The objectives do not make the purpose clear. Although it is mentioned that the auditor is not required to seek to enhance the auditor’s understanding of the entity and its environment beyond that required for purposes of the audit (paragraph A32), this might be difficult in practice. In particular, the new information may reveal that the auditor’s prior understanding was incorrect or incomplete (p. 13 ED). This seems rather strange; the auditor should have discovered this before. The same is applicable for material misstatements in the financial statements. Furthermore, the terms ‘read and consider’ might not be clear. The term ‘consider’ is used in various ISA’s and might have different meanings (see also answer to question 8).

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?

The definitions seem acceptable. We wonder how the materiality taken on the basis of the audited financial statements and the other information ‘as a whole’ (paragraph 9) should be determined. Other information also contains qualitative information. Instead of using materiality ‘as a whole’ we are using the statutory requirements in the Netherlands (see text of the statement in answer to question 1).

7. Do respondents believe that users of 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?

We doubt whether users understand this. Users might expect assurance (see answer to question 12). Users might not understand that the audit procedures are limited. If required by users, limited assurance could be provided. However, this requires a separate assurance engagement.

Furthermore, we doubt whether users understand what an inconsistency between other information and the financial statements means. This might be confusing as they might not understand which part of the information is not ‘correct’.

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 principles-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?
Yes, we agree with the principles-based approach. However, we wonder whether the concept of 'reading and considering' is sufficiently clear when concrete procedures need to be performed. It might be difficult to perform adequate procedures on remaining other information (paragraph A37d).

When relevant other information is issued after the date of the auditor's report and the auditor is aware of this, he should perform test work on this information. We wonder where these audit procedures will be documented as the audit file might be closed. Should ISA 230.13 be revised for this situation? We recommend more attention is paid to documentation.

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

The examples are helpful in our opinion.

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?

This means that the audit can only be finalized if ISA 720 has been performed. We wonder whether this is the intention of the ED (see also answer to question 3).

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 our 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?

We do not think that the statement is clear for the users. The users might expect that more procedures have been performed by the auditor. The users might expect assurance on the other information, although it is mentioned that no assurance is being expressed.

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?

We expect that this ED 720 will increase the expectation gap. It should be clear that no assurance is provided, but that the auditor has only 'read and considered' the other information.

We believe that it is more relevant for the users that the auditor performs a separate assurance engagement and that assurance standards should be made for this purpose.

Request for General Comments

(a) Preparers
N/A.

(b) Developing Nations
N/A.

c) Translations
In general, long sentences should be avoided.

(d) Effective Date
A period of 12/15 months for implementation (including translation) seems to be feasible.

**Closing remarks**

We trust to have you informed sufficiently. If you have any questions, please do not hesitate to contact Karin van Hulsen (k.vanhulsen@nba.nl).

Yours sincerely,
Dutch Professional Accountancy Association (Dutch acronym: NBA)

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Chairman of the Dutch Ethics & Assurance Standards Board