

14 March 2013

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear James,

IAASB Exposure Draft, *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*

Thank you for the opportunity to comment on this Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

The NZAuASB is supportive of the IAASB's project to revise ISA 720, to strengthen the auditor's responsibilities with respect to other information. The NZAuASB agrees that audit quality will be improved by clarifying firstly what information falls within the scope of the auditor's responsibility, and secondly, the work effort of auditors with respect to other information. Also, requiring auditors to consider the other information for consistency of the auditor's understanding of the entity and the environment acquired during the course of the audit will increase the value of the audit in a cost beneficial manner. The NZAuASB agrees with the IAASB's aim to promote a change in auditor's behaviour in this regard.

The NZAuASB is strongly of the view that that there should very clear boundaries around the extension of the scope. Further, the auditor's objective regarding the consideration of other information should be very clear to avoid any further increase in the expectation gap. The NZAuASB acknowledges that the IAASB has recognised the importance of this when developing the proposed ISA, but has noted a few areas within our responses to the specific questions raised where further clarification is needed.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Neil Cherry

Chairman – New Zealand Auditing and Assurance Standards Board

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Submission of the New Zealand Auditing and Assurance Standards Board

Exposure Draft ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

I Schedule of Responses to the IAASB's Specific Questions

- 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:

Yes, the NZAuASB agrees that there is a need to strengthen the auditor's responsibilities with respect to other information, specifically given the change towards more qualitative disclosures and the more diverse use of documents (in hardcopy and electronically) other than the annual report to communicate matters in connection with the audited financial statements.

- 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:

Response with regard to the proposed scope of the proposed ISA

Yes, the NZAuASB agrees, provided that there are very clear boundaries around the extension of scope. The NZAuASB acknowledges that the IAASB has recognised the importance of this when developing the proposed ISA.

The NZAuASB agrees with the IAASB's decision that only those accompanying documents that have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process should be in scope. The NZAuASB also agrees with the concept that documents within the scope of the standard are those that are issued in connection with the initial release, and that documents that are issued after the initial release will only be in scope if they are released pursuant to law and regulation, or the documents were otherwise identified in discussion with management as being expected to be in scope of this ISA (refer A5). The NZAuASB believes this avoids an open ended obligation on auditors to read and consider documents long after the first issue of the audited financial statements.

However, it is not clear how the ISA will apply where the initial release of the audited financial statements are published on an entity's website, with accompanying information in electronic form included on the website or hyperlinked to the audited financial statements. There is a risk that documents within the scope of the standard may be hyperlinked to other documents which may yet again be hyperlinked to other documents on the internet. It is not clear if such linked documents are considered to be an accompanying document, and would be within the scope of the standard. We suggest that the IAASB include some guidance to clarify the boundaries of the other information that will be in scope in those instances, and the auditor's responsibilities.

Response with regard to the appropriateness of the auditor's report

The NZAuASB is in favour of the clarification of the auditor's responsibility in the audit report, as well as identifying the specific documents the auditor has read and considered. However, it is not clear that the auditor's consideration of the other information is to check for consistency with the audited financial statements, in light of the auditor's understanding of the entity and its environment acquired during the audit.

Consequently, users of the audit report may misinterpret the proposed wording in the audit report to mean that the scope of the auditor's work on the other information is wider than the objective of the auditor. We are concerned that this may further increase the audit expectation gap. We suggest that the reporting in the audit report be amended to read, for example:

A57. "As part of our audit, it is our responsibility to read and consider the [specify the documents] (Other Information) for consistency with the audited financial statements, in light of our understanding of the entity and its environment acquired during our audit ~~the information in [specify the documents]~~, and to report whether we have identified material inconsistencies in the Other Information".

- 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:

Yes, the concept is clear and understandable. However, the difference between the 'initial release' concept and the 'date the financial statements' are issued as defined in ISA 560 could be explained more clearly, for example, by noting more explicitly within the guidance material that the two dates may be different.

- 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:

Yes, the NZAuASB agrees that it is appropriate to only include the offer document within scope in the limited circumstances identified by the IAASB.

- 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:

- a. Yes, the NZAuASB considers the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit”, and the requirements and guidance is understandable to the auditor, as it is consistent with the terminology used in ISA 315.
- b. The NZAuASB considers the auditor’s responsibility to read and consider the other information for consistency with the financial statements could be made clearer. For example, paragraph 11 could be amended to read :

“The auditor shall read and consider the other information for consistency with the audited financial statements, in light of the auditor’s understanding of the entity and its environment acquired during the audit.”

- 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:

Yes, the NZAuASB agrees with the definition of inconsistency.

- 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?**

Response:

Yes, the NZAuASB believes that users will understand the meaning of a material inconsistency as referred to in the proposed auditors report. Also, the standard requires the auditor to describe any identified material inconsistencies which will provide further clarification.

- 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?**

Response:

- a. Yes, the NZAuASB agrees that the principle based approach the IAASB adopted is appropriate.

b. Yes, other than that:

- the nature and extent of work effort on 'financial information that is not directly reconcilable' is not clear. The nature and extent of the work effort on directly reconcilable financial information is explained in paragraph A37(c), and the nature and work effort on remaining other information is in A41-A43. It is not clear whether the nature and extent of work effort on financial information that is not directly reconcilable is also covered in A43. This should be clarified, for example by cross referring to paragraph A43 from paragraph A40.
- the nature and extent of work effort on other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit is not clear (for example, a corporate social responsibility report). Para 4 states that in these circumstances the auditor is not required to extend the auditor's understanding beyond that required for purposes of the audit. However, the nature and work effort to apply in these circumstances is not clear. In our view this work effort should be limited to a review of the information to see if it is consistent with the financial statements.
- Some of the examples of qualitative financial information could be directly reconciled to the notes to the financial statements (for example, related party transactions, contingencies and commitments required to be disclosed by financial reporting standards, although paragraph 38 implies that directly reconcilable information can only be quantitative. Also, it would be useful to expand on and clarify the part that the notes to the financial statements have in considering other information.

c. Yes, 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.

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

Response:

Yes.

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:

Yes, the auditor's proposed requirements are clear and appropriately linked to the relevant ISAs.

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?

Response:

- a. No. As noted in our response to question 2 above it is not clear that the auditor’s consideration of the other information is to check for consistency with the audited financial statements, in light of the auditor’s understanding of the entity and its environment acquired during the audit. Users of the audit report may misinterpret the proposed wording in the audit report to mean that the scope of the auditor’s work on the other information is wider than the auditor’s objective. We are concerned that this may further increase the audit expectation gap. We suggest that the reporting in the audit report be amended to read:

A57.”As part of our audit, it is our responsibility to read and consider the [specify the documents] (Other Information) for consistency with the audited financial statements, in light of our understanding of the entity and its environment acquired during our audit ~~the information in [specify the documents]~~, and to report whether we have identified material inconsistencies in the Other Information”.

- b. Yes. However, refer to our response above and our suggestion to further clarify the scope of the auditor’s work on the other information in the audit report.

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:

Yes.

II Additional Comments for the IAASB’s consideration

1. It is not clear what would be considered to be “other information” in relation to special purpose financial statements. Often special purpose financial statements are prepared for example for funders, rather than shareholders and in many instances have a use that is quite different from general purpose reporting requirements. The other information that could be considered to accompany audited special purpose financial statements that provide commentary to enhance the users’ understanding of the special purpose financial statements may well include items beyond what has been contemplated by the IAASB’s proposals.

The NZAuASB suggest that if special purpose financial statements are to be covered by this proposed standard, additional guidance should be provided in the special purpose financial statements context.

2. The NZAuASB has some concern that assessment against the proposed audit standards by regulators or litigators would be highly subjective in the absence of a framework in which management are to report documents under. This could also lead to potential different interpretations by the auditor and management. The NZAuASB recommends

that the IAASB and the IASB work together to consider this issue to enable the various interested parties to assess the other information in a consistent manner against a defined reporting framework for that other information.

3. The use of the term “consider” is used in many other auditing standards and the term as used in the proposed standard may lead to confusion of the meaning of the term elsewhere in the ISAs. The NZAuASB recommends that the phrase “read and consider” be defined within the proposed standard to avoid any confusion with the use of the term.