

24 July 2013

Ms Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear Kathleen,

IAASB Re-Exposure Draft, ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

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

The NZAuASB supports the IAASB's project to revise ISA 720 and to strengthen the auditor's responsibilities with respect to other information. The NZAuASB considers that the proposals set clear boundaries around the scope of the auditor's responsibilities:

- for other information in the annual report; and
- whether this information is consistent with the financial statements and the auditor's knowledge obtained during the course of the audit.

We support the proposals to extend the auditor's work effort with respect to other information to consider inconsistencies with their knowledge based on the audit, and to increase the transparency of the auditor's work through the auditor's report. The NZAuASB considers that these proposals will enhance the quality of the other information.

The NZAuASB has concerns regarding a lack of clarity regarding the responsibilities of the auditor with respect to other information that is not within the scope of the audit. We recommend that any responsibility for such information should be split out and clarified.

In addition, the NZAuASB has concerns regarding the practical implications of the reporting requirements where the other information is obtained after the date of the auditor's report. We consider that in practice this could either delay the finalisation of the auditor's report or that the tightly worded reporting requirements, limited to the final version of the other information, would result in, in most circumstances, no reporting on the other information. Given the iterative process of finalising all of the information to be published in the annual report it is unlikely that the auditor will have access to the final version of the other information in most instances prior to the date of the auditor's report. The auditor will therefore not be required to report on it. We believe this is contrary to the IAASB's intention. We recommend that the IAASB reconsider how the reporting requirement is drafted.

We have two recommendations we consider will improve the effective communication to users about the auditor's work relating to other information. First, we recommend that where no other information has been obtained prior to the date of the auditor's report, this fact should be explicitly stated in the auditor report, as

users are unlikely to understand the significance of just omitting the other information section. Second, we recommend that the auditor's report should explicitly state that the responsibility for the information in the annual report is that of those charged with governance or the appropriate body.

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,

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Neil Cherry

Chairman – New Zealand Auditing and Assurance Standards Board

Email: neil.cherry@xrb.govt.nz

Submission of the New Zealand Auditing and Assurance Standards Board

Exposure Draft ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

I Schedule of Responses to the IAASB's Specific Questions

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:

Objectives

The NZAuASB considers that the objectives of the auditor as outlined in the proposed ISA 720 (Revised) regarding how the other information relates to the financial statements or the auditor's knowledge obtained during the course of the audit are appropriate. Separating the objectives to consider whether there is a material inconsistency between the other information and the financial statements as well as considering whether there is material inconsistency between the other information and the auditor's knowledge obtained during the audit clearly outlines the different objectives which will improve audit quality and will increase the value of the audit in a cost beneficial manner. We agree that the auditor's consideration of the other information should be informed by the knowledge obtained during the course of the audit. It is this informed read that will add value to the users.

However, the NZAuASB considers that the objective and responsibilities of the auditor to other information, which is outside the scope of the audit, is conflicted and should be clarified further if it is to be applied consistently in practice.

Paragraph 2 states, "...nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements." This would imply that the auditor is not required to obtain evidence regarding information outside the scope of the audit. We note that other information may cover both financial and non-financial information, whereas the scope of the ISAs are to be applied to the audit of historical financial information.

The following paragraphs describe the auditor's objectives and responsibilities with respect to other information:

- "...or when the auditor otherwise **becomes aware** that other information appears to be materially misstated". (paragraph 11(c))
- "**Remain alert** for other indications that the other information appears to be materially misstated." (paragraph 14(c))
- If the auditor ...becomes aware of other information that appears to be materially misstated, the auditor shall discuss the matter with management and, if necessary, **perform other procedures** to determine whether...a material misstatement of the other information exists. (paragraph 16)

We consider that all of these references refer to other information that is outside the scope of the audit. As outlined in the explanatory memorandum, the IAASB has recognised that the auditor may have relevant knowledge that goes beyond the knowledge obtained during the course of the audit. However, we consider that, in particular, paragraph 16 does require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements, as it requires, where appropriate,

the auditor to perform other procedures to determine whether a material misstatement of the other information exists. As this information goes beyond the knowledge obtained during the course of the audit, requiring the auditor to go further and perform procedures to determine whether a material misstatement of the other information exists, goes beyond the mandate of the traditional audit.

The NZAuASB is supportive of “raising the bar”, and supports the decision of the IAASB not to go as far as requiring the auditor to obtain assurance on the other information, however, the NZAuASB considers that the proposals as drafted do not provide sufficient clarity for the auditor as to what their responsibilities are and therefore the proposals would result in inconsistent application in practice.

We raise two recommendations regarding the above mentioned paragraphs:

1) We recommend that the standard should be explicit as to whether these paragraphs refer to other information outside the scope of the audit or whether it includes additional responsibilities for the auditor on information within the scope of the audit:

We consider that it is unclear whether part c to paragraphs 11 and 14 relates to other information outside the scope of the audit only (which is implied by the reference to A33 in paragraph 14(c)), or whether it also implies a further responsibility on the auditor to look for material misstatements in the other information relevant to the audit engagement, but which differs from parts a and b which require the auditor to look for inconsistencies.

We therefore recommend that part c should be split. If there is a separate obligation for the auditor to remain alert for a material misstatement of the other information, within the scope of the audit, then part c (and any attached application material) should be limited to this responsibility. We would then recommend adding a part d that requires the auditor to remain alert to a misstatement of the other information, outside the scope of the audit.

2) We recommend that the standard should be more explicit regarding the objectives and the auditor’s responsibilities to information outside the scope of the audit

The auditor’s responsibilities to this other information, (not covered by the scope of the audit), is unclear, and there is conflicting wording in the proposals as outlined above.

As outlined above, we would recommend that the objective and requirements covering other information outside the scope of the audit should more clearly distinguish this “other information” that is outside the scope of the audit from the other information in parts a and b, and explicitly state “other information outside the scope of the audit” in a part d to these paragraphs.

In addition, we would recommend adding guidance as to how the requirement to “remain alert for other indications” should be applied in practice. An example would be helpful. This guidance should make it explicit that this standard does not require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

We also recommend that the standard provide additional guidance and an example (to accompany paragraph 16) of the auditor’s responsibilities when the auditor becomes aware that other information, outside the scope of the audit, appears to be materially misstated. We consider that paragraph A38, which refers to other procedures such as consulting with a qualified third party, would require the auditor to obtain evidence beyond that required to form an opinion on the financial statements, where that information is outside the scope of the audit. We consider that this inconsistency would result in a lack of clarity for the auditor as to what is expected of them, and what is the required course of action to pursue. We consider that the standard should be explicit,

clearly articulating whether or not the auditor is required to obtain evidence beyond that required to form an opinion on the financial statements.

Scope

The NZAuASB considers that the scope of the proposed ISA 720 (Revised) is clear and appropriate. The NZAuASB also considers that this is the appropriate scope for the standard, as it is not creating an open ended obligation on the auditor nor is it requiring the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements (i.e. it is not inappropriately broadening the scope of the engagement) and yet it is placing obligations on the auditor to consider the relevant information that may influence the economic decisions of the users for whom the auditor's report is prepared.

The NZAuASB is supportive of the application guidance which makes it clear that the medium used to deliver the information (be it in hardcopy or electronically) is irrelevant in determining what is within the scope of the standard. This is useful and relevant guidance. The fact that other information may not be in one paper document is increasingly likely, and we also support that the definition of annual report notes that it may be a single document or a combination of documents.

We do however recommend that the IAASB continue to monitor the concept of the "annual report" as the way information is being distributed and packaged is evolving. This may create a tension in the application of the scope as the way financial information is packaged and distributed continues to evolve. This is particularly relevant as integrated reporting develops.

We also consider that further guidance as to whether an integrated report meets the definition of the annual report would be helpful as more entities and jurisdictions move to adopting integrated reporting.

Work effort

The NZAuASB agrees with the proposals to extend the auditor's responsibilities to read and consider the other information rather than just to read the other information. The NZAuASB is also supportive of requiring limited procedures to be performed as we consider that this will enhance the quality of the work performed. The NZAuASB is supportive of a principles based approach and agrees that the standard should not specify which procedures are required in all instances as this may unnecessarily increase the work effort.

As discussed above, the NZAuASB does not consider that the work effort in respect of other information, that is outside the scope of the scope of the audit, is sufficiently clear, and recommends including an example and further application material as well as removing any possible conflicting requirements.

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

Response:

Yes, the NZAuASB generally considers that the proposals appropriately balance a principles based standard that requires the application of professional judgement with sufficient guidance, including examples of procedures that the auditor may perform to enable consistent application in practice.

The NZAuASB is supportive of the requirement to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during

the course of the audit and considers the cross reference to ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, helpful to provide guidance on how this requirement should be applied.

As discussed above, the NZAuASB does not consider that the work effort in respect of other information that is outside the scope of the scope of the audit, is sufficiently clear, and we have concerns that the standard would not be consistently applied in this regard. We request further clarification and the removal of any conflicts in the requirements.

The NZAuASB notes the use of and therefore the distinction between three terms used in the proposed standard: “material inconsistency”, “materially misstated” and “material misstatement”. Paragraph 16 would essentially require an auditor to perform the same work effort on other information when a material inconsistency or a material misstatement of other information appears to exist. We consider that this places too much emphasis on the other information that is outside the scope of the audit. Again we recommend that this category be dealt with separately and the responsibilities of the auditor be very clearly articulated.

The NZAuASB is supportive of the definition of “misstatement of the other information” and specifically agrees that this should cover examples where the other information may be misleading because it omits or obscures information. On the other hand it is not explicit whether a material inconsistency covers an omission that may skew the readers understanding. We understand why the IAASB has not defined a “material inconsistency” in the re-exposure draft. We note that the general meaning of an inconsistency is something that contradicts something or that is not in keeping with it. The NZAuASB also considers that there is a risk of inconsistent application where the other information obscures or purposefully omits relevant information of which the auditor is aware. The auditor’s responsibility in this instance is not clear. The auditor shall consider whether there is a material inconsistency between the other information or the auditor’s knowledge obtained during the audit. The NZAuASB would support that a material inconsistency should cover omissions that may skew a readers understanding and recommends that some additional guidance which makes this explicit should be added. We would recommend that providing examples of how the auditor should take into account the completeness of the other information would be helpful.

The NZAuASB considers that the lack of a framework for preparing the other information makes it open to different interpretations increasing the risk of inconsistent application of ISA 720 by auditors. The subjective nature of the other information makes it difficult for the auditor to consider. We recommend that the IAASB work with the IASB and other appropriate standard setters to address the issue of developing a robust reporting framework for this other information.

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:

The NZAUASB is broadly supportive of the IAASB’s reporting requirements as a way of providing greater transparency about the work carried out by auditors on other information. The NZAuASB is in favour of the clarification of the auditor’s responsibility in the audit report, as well as identifying the other information obtained by the auditor prior to the date of the auditors report. The NZAuASB is also supportive of proposals, that where no material misstatement of the other information has been identified, that the reporting should take the form of a statement that the auditor has nothing to report. We agree that this minimises the risk of misinterpretation that assurance has been obtained.

We do note however that some submitters are of the view that some users may be confused by the inclusion of an explicit statement that does not express any assurance. These submitters are concerned that users will inappropriately take assurance when none is intended, which will increase the expectation gap.

The NZAuASB has concerns regarding the practical implications of the reporting requirements where the other information is not finalised by the date of the auditor's report. We consider that this could either result in the auditor's report being delayed or alternatively will result in this reporting requirement being too restrictive. Paragraph A12 provide some guidance as to how "final version" is to be interpreted, being the version "that has been approved by those charged with governance for issuance". However, in practice, the preparation of the other information is a fluid process, where many iterations of the wording are likely to be prepared. The publisher may make changes to this information just before it goes to print, and therefore the auditor is unlikely to know for sure when the "final version" is available. Practically this will mean that in most cases, where the reporting deadlines are tight, the auditor is unlikely to ever have the "final version" before it is published and therefore reporting on the other information would become the exception rather than the norm. This appears to contradict the IAASB's intention.

We would recommend removing the word "final" from the requirement because it is too restrictive for this iterative process, as follows: "When the auditor has obtained all or part of the other information prior to the date of the auditor's report..." We would then recommend adding in guidance to assist the auditor in identifying whether the other information has progressed sufficiently, that is with reference to the approval by those charged with governance, but explicitly acknowledging the iterative process involved.

In addition, the NZAuASB would prefer that it should be clear to users that the auditor has considered other information available up to the date of the auditor's report, even if no information is available at that date and recommend that the auditor's report should explicitly communicate if the auditor has not obtained any other information prior to the date of the auditor's report, rather than being silent in this regard. This would avoid a misinterpretation that the auditor has overlooked considering the other information or any ambiguity in this regard. We agree with the decision not to mandate identification of other information not yet obtained nor requiring a description of the actions that the auditor would take, but recommend that where no information has been received at the date of the auditor's report, only this fact should be stated. The fact that no other information was obtained is a relevant fact under this reporting regime and should be explicitly stated.

We also recommend that the auditor's report should clarify the responsibilities of management with respect to other information, similar to the additional descriptions being considered for going concern, especially because the auditor's report will now include a separate section on other information. As the other responsibilities of management are set out in the report, remaining silent on their responsibilities for the preparation and presentation of the other information may create ambiguity for users. We would recommend adding a requirement (in ISA 700 (Revised)) to include a description regarding the respective responsibilities of those in the organisation that are responsible for the preparation of the annual report as follows:

"This section of the auditor's report shall describe the respective responsibilities of those in the organisation that are responsible for:

The preparation of the annual report, including other information than the financial statements."

- 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:

Yes, the NZAuASB is supportive of the decision that no reporting should be made about other information obtained after the date of the auditor's report, subject to the concern raised in response to question 3 being addressed, as otherwise we consider that this would result in no reporting on the other information in most instances. The NZAuASB considers that the specific identification of the other information in the reporting section, will sufficiently clarify what other information has been reported on.

5. Other comments

We consider that the proposed standard would benefit from additional clarification as to when the auditor's responsibilities regarding other information obtained after the auditor's report date ends. It is assumed the responsibility ends with the finalisation of the annual report. We would recommend the standard clarifies the fact, specifically in paragraph 6, which may imply an open ended obligation if read in isolation. Our suggested clarification is as follows:

"The auditor's responsibilities relating to other information, other than the reporting responsibilities, apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. The auditor's responsibilities relating to other information end with the finalisation of the annual report."