

14 March 2013

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

Dear Sir

**SAICA SUBMISSION ON THE AUDITOR'S RESPONSIBILITIES RELATING TO
OTHER INFORMATION IN DOCUMENTS CONTAINING OR
ACCOMPANYING AUDITED FINANCIAL STATEMENTS AND THE
AUDITOR'S REPORT THEREON**

In response to your request for comments on ISA 720 *the Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Ashley Vandiar
Project Director – Assurance and Members' Advice

GENERAL COMMENTS

Overall, we support the elements in the Proposed Standard that enhance the user's understanding of the work performed by the auditor and the documents the auditor devoted attention to. However, we have some significant concerns about the expansion in scope to documents accompanying audited financial statements and the auditor's report thereon, and the broadening of the extent and nature of work described in the Proposed Standard. We believe that the way the Proposed Standard is currently structured, management and users may misconstrue the extent of work performed by the auditor on the other information, and the auditor's responsibilities with respect to that information. Given the changes in the reporting environment, management are expected to give more detailed information on other aspects of the business, other than the financial statements, which is usually included as narrative information in documents containing the audited financial statements and the auditor's report thereon. The users of the financial statements are starting to place more reliance on this other information, and thus want assurance that the other information is correct and accurate. Thus clarity regarding the auditor's responsibilities regarding this other information is definitely needed.

Below are comments on the overall themes identified from the Exposure Draft:

- Widening of the expectation gap
Users of the financial statements want to obtain some assurance that the other information is valid, and some of the procedures listed in the exposure draft do give the illusion that we are giving assurance. However we will not be giving any assurance over the other information. Thus users might be confused as to the assurance the auditor is providing them.
- The scoping of the exposure draft and boundaries of the auditor's responsibility
The scoping of which documents the auditor is expected to look at is not clear. However more importantly, it is not clear when the auditor's responsibility ends with regard to the other information for any given financial year. Would the auditor be expected to reopen an archived file when new other information is released after the archiving date? What is the timeline of the auditor's responsibility? The specific responsibility of the auditor is unclear.
- Subjective nature of the terms in the proposed ISA
The current ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* is more objective on how the auditor has to evaluate the other information. The proposed ISA almost lends itself towards the auditor "auditing" the other information; however it will be difficult to audit subjective information. Clearer definitions of "unreasonable", "inconsistency", "consider" etc needs to be provided.
- The concept of initial release
The concept of initial release is too subjective; there may be many conclusions that can be reached by audit teams. There may be a gap between what the proposed ISA means with the term and the understanding the audit team has of the term.
- Extent of work and the wording in the proposed ISA

The proposed ISA states that an auditor must "read and consider" the other information. However some of the proposed procedures in the application guidance of the proposed ISA seem to indicate that auditors must do more than just reading and considering. Thus "read and consider" might not be the correct words to use in the proposed ISA.

- Wording of audit report

Currently it is suggested that the report contain the wording “...we have not audited or reviewed the Other Information and accordingly do not express an audit opinion or a review conclusion on it.” However given that the statement is included in the audit report that expresses an opinion on the financial statements, users might still think that some assurance is given over the other information.

- Costs involved

It is understood that the proposed ISA does not increase the scope of the audit work that has to be performed to express an audit opinion over the financial statements, but it could possibly result in a whole separate “mini” audit process coming into existence to fulfil the responsibilities as per the proposed ISA. Thus the costs involved for the auditor will definitely increase.

- Unclear course of action if information is not received before the audit report date

The proposed ISA does not clearly set out the course of action for the auditor if they do not receive the other information before the audit report date. Do they then need to put a paragraph in the audit report that states that they have not read and considered the other information? It is stated in the proposed ISA that not having read and considered the other information, does not preclude the auditor from not signing the audit opinion.

- Management’s responsibility regarding the other information

The proposed ISA does not specifically state what management’s responsibility is regarding the other information and when they are required to provide it. More responsibility must be placed on management for them to ensure that the other information is correct and accurate, and that it has to be provided on a timely basis. Currently the proposed ISA places all the responsibility on the auditor to ensure that the other information is correct and accurate.

Detailed Commentary on Specific Paragraphs in the ED

Paragraph	Extract	Comment
3	This ISA does not apply to: (a) Preliminary announcements of financial information; and (b) Securities offering documents such as prospectuses, unless such documents meet the criteria specified in paragraph 9 (c) for documents within the scope of this ISA	Please provide a clearer understanding about what is meant by a preliminary announcements (clear definition), because in South Africa some preliminary announcements may contain audited information.
4	Some documents within the scope of this ISA may include other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. Although the auditor is not required to enhance his or her understanding of the entity and its environment beyond that required for purposes of the audit, such other information is nevertheless within the scope of this ISA	This sentence about the auditor's responsibility is confusing. We would recommend replacing the wording here with the wording in A32.
10(b)	Make appropriate arrangements with management to obtain in a timely manner, and if possible prior to the date of the auditor's report, the final version of the documents that are within the scope of this ISA. (Ref: Para. A22–A27)	In the current environment, the other information is usually only completed some weeks after the financial statements have been signed off. Thus it will pose practical problems to get everything ready by the time the financial statements need to be signed off.
11	The auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit.	The paragraph should rather read: The auditor shall read and consider the other information <u>based on</u> the auditor's understanding of the entity and its environment acquired during the course of the audit <u>and which relates to the audit of the financial statements.</u>
A13	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 are outside the scope of this ISA. Examples include separate	Sometimes a Sustainability report or in fact any of the reports bulleted in A13 contain financial information e.g. value added statement, training spend, corporate social investment spend etc. along with explanations/ interpretations

Paragraph	Extract	Comment
	<p>documents issued by the entity, such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Corporate social responsibility report. <input type="checkbox"/> Sustainability report. <input type="checkbox"/> Diversity and equal opportunity report. <input type="checkbox"/> Product responsibility report. <input type="checkbox"/> Labor practices and working conditions report. <input type="checkbox"/> Human rights report. 	<p>of circumstances surrounding the spend. These types of disclosures would enhance users' understanding of the audited AFS. In addition, some may argue that Sustainability reports provide context to financial performance and explain impacts and outcomes and/or are leading indicators of financial performance. Sustainability strategy is supposed to be linked to business strategy and thus indirectly to a company's financial performance. A13 is then also contradicted in A15, where other information is described as "operating data, employment data". These types of information are often found in Sustainability reports. Does the auditor's responsibility extend to these reports? When does the responsibility of the auditor ever end in terms of ISA 560?</p>
A14	<p>Documents that are referred to as integrated reports may or may not be within the scope of this ISA depending on their purpose and the circumstances of their issuance. For example, an integrated report containing audited financial statements and the auditor's report thereon, which is issued in connection with the initial release, is within the scope of this ISA.</p>	<p>It would be useful to provide examples regarding an Integrated Annual Report that contains summarized Financial Statements and/or an Integrated Annual Reporting that doesn't contain AFS but is released at same time as the Financial Statements.</p> <p>This is especially important with the rise of integrated reporting globally.</p>
A40	<p>Financial information that is not directly reconcilable may include, for example, market data, such as trends in interest or foreign exchange rates, or commodity prices at specific points in time.</p>	<p>Should it rather not go under "Remaining other information"? Currently it is included under the heading for "Directly reconcilable information".</p>

RESPONSES TO 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?*

Response:

- *Need to strengthen the auditor's responsibilities with respect to other information*

Yes, there is a need to strengthen the responsibility of the auditor regarding other information in documents containing audited financial statements due to the significant changes in the reporting environment and the fact that the users of the financial statements are starting to place more reliance on the "other information". With sustainability reporting featuring prominently, where management often makes bold statements or estimates data without using appropriate and calculated assumptions. However the word "strengthen" might not be the correct term to use in this regard as "extending" or "clarifying" the auditor's responsibility would be better suited as the responsibilities in terms of the current ISA 720 and the proposed ISA 720 are quite different. Further, SAICA is concerned that the Proposed Standard will widen the expectation gap by suggesting that the work performed by the auditor provides some level of assurance on other information, which is not the circumstance under either extant ISA 720 or the Proposed Standard.

- *Extension of the auditor's responsibilities with respect to other information and whether it reflects the costs and benefits appropriately and is in public interest*

It seems that the costs involved for auditors in complying with the requirements of the proposed ISA might be more than intended by the IAASB. This would be due to the extent of work that would be required to comply with the objectives of the revised ISA, the fact that more senior personnel would have to be involved in performing the work (as suggested by the revised ISA in paragraph A33) and the unclear scope of when the auditor's responsibility with regards to the other information ends.

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:

Yes, it is appropriate to broaden the scope of the proposed ISA to include documents that accompany the financial statements; however clearer boundaries should be set regarding what documents the auditors are expected to look at. Thus the terms "accompanying" and "primary purpose" need to be clearly defined.

We propose that the scope of documents should be determined in consultation with management prior to the start of the engagement and included within the engagement letter to ensure all parties are in agreement about which documents are in scope.

Further, to ensure that users understand which documents the auditor devoted attention to, in an effort to increase transparency, we believe that the auditor's report should include a description of the documents within scope and specify which documents were available prior to the audit report and read and considered for consistency.

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:

No the concept of "initial release" is unclear and it may become very difficult to interpret this concept in complex situations or where there are multiple releases. There may be a different interpretation as to what the proposed ISA states an "initial release" is, and how the audit teams interpret it. Furthermore we understand that the "initial release" date as per the proposed ISA may differ from the "issue date" as per ISA 560. However consistent terms between the different ISA's will cause less confusion. Also the "cut off" date for the auditor's responsibility in terms of the proposed ISA and ISA 560 is unclear i.e. When does the work that has to be performed on the other information ever end in terms of ISA 560. It is unclear whether other information that is subsequently loaded onto the client's website is included in the scope of the proposed ISA.

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:

We believe that initial public offering documents should be scoped out of the Proposed Standard, as we believe there are laws and regulations set out at the national level that address such matters

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?*

Response:

It would be clearer to state the following in paragraph 11 and all other paragraphs referring to the auditor's understanding:

“The auditor shall read and consider the other information based on the auditor's understanding of the entity and its environment acquired during the course of the audit and which relates to the audit of the financial statements.”

We believe that the proposed wording would better convey that the proposed Standard does not require the auditor to gain additional understanding of the entity and its environment, other than that related to the audit of the financial statements.

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?

Yes, the guidance in the ISA is clear about what read and consider” entails, if read in conjunction with the “Application and Other Explanatory Material”. However the auditor's judgment will still be the main determining factor in the extent of work performed in terms of the proposed ISA.

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:

Yes, if read in conjunction with the “Application and Other Explanatory Material”, especially paragraph A37. However the extent of the work performed in reading and considering the other information will be subject to the auditor's judgment, as the Application Guidance gives suggested procedures. Thus audit teams need to use their professional judgment to determine the nature and extent of the procedures to be performed on the other information.

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:

We do not believe the definitions of the terms “inconsistency” including the concepts of omissions and “a material inconsistency” in other information are appropriate as set out in paragraph 9 of the Proposed Standard. The first part of the definition of an inconsistency explains that “an inconsistency exists when the other information contains information that is incorrect, unreasonable or inappropriate.” While it is clear when other information may be incorrect, it is less clear when information may be unreasonable or inappropriate. These criteria are extremely subjective, and it would be difficult for an auditor to assess whether other information was unreasonable or inappropriate with any degree of certainty or consistency except in

the most extreme circumstances. Further, the subjective nature of what may or may not be unreasonable or inappropriate could very easily result in disagreements between management and the auditor, based on the different perspectives of each and the different levels of understanding of different aspects of the entity and its environment. We do not believe such discussions would benefit users in any meaningful way, and for this reason do not agree with including the concepts of other information being unreasonable or inappropriate in the Proposed Standard.

The second part of the definition of an inconsistency explains that an inconsistency exists when “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 concept is also difficult to implement on a consistent basis. While in the extreme, an auditor would be able to make this assessment; however, in many instances, the auditor would not have a sufficient basis to make such an assessment. Moreover, including this concept would inappropriately place the responsibility for determining the completeness of the other information on the auditor, when it more appropriately belongs to management.

The last part of the definition states “an inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor’s report is prepared taken on the basis of the audited financial statements and the other information as a whole.” However, it is unreasonable to expect the auditor to determine a materiality threshold for other information such that inconsistencies in other information above such a threshold would influence the economic decisions of users. We believe extant ISA 720 better explains a material inconsistency in terms of the audited financial statements as “an inconsistency that raises doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.” Similarly, we believe the guidance in paragraph A3 that explains that in the public sector, an inconsistency could be material if it could reasonably be expected to influence non-economic decisions of the intended users, such as changes in public policy and direction, is a subjective determination that would be inappropriate for the auditor to make.

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:

The “term inconsistency” may not be clear to the users of the auditor’s report as the term is open to broad interpretation by the users, as there is no clear definition. Expansion on what constitutes an inconsistency may need to be included in the audit report paragraph dealing with the other information.

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?*

Response:

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.

- 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?*

Response:

Yes, the categories of the other information in the “Application and Other Material” are appropriate and useful.

- 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:

It is understood that the expected work effort in terms of the proposed ISA does not extend the scope of work that the auditor needs to perform to express an opinion on the financial statements, however it will lead to more work that the auditor has to perform on the other information to make sure that he meets all of the responsibilities as set out in the proposed ISA. There will be practical issues and extra costs involved where the auditor only receives the other information after the date of the audit opinion, as there may be more work to be performed in terms of ISA 560.

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

Response:

Yes, the examples of qualitative and quantitative information included in the Appendix of the proposed ISA are helpful.

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 it is clear. However more guidance is needed on what course of action is available to the auditor if the other information was only received after the date of the

audit report, and the auditor then discovers that the prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete.

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?*

Response:

It will be unclear to the users of the audit report precisely what work was completed on the other information and what assurance the auditor is providing them. This might be open to user interpretation and could result in misunderstandings. Furthermore the work to be performed in the proposed ISA is subjective and based on the auditor’s judgment, thus there might be inconsistencies between the audit work performed by different audit teams and thus “read and consider” might not be appropriate to describe to users what work has been performed on the other information. We suggest that a more detailed description on the extent of work performed by us, as well as the results is included in the 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:

The statement should be further clarified to specifically state that no assurance is given over the other information. Users can still interpret “no audit opinion or review conclusion” to convey some sort of assurance, given that the statement is included in the audit report, which gives an assurance over the financial statements.

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:

The proposed ISA currently states that no assurance is given over the other information, with which we agree. However this might not meet the needs of the users in terms of other information, as they would like to have some assurance that is correct and accurate.