

14 March 2013

To:

Mr. Schilder  
Chair of the International Auditing and Assurance Standards Board

**Re.: Comment letter from European audit regulators relating to IAASB's exposure draft "*The auditor's responsibilities relating to other information in documents containing or accompanying audit financial statements and the auditor's report thereon*"**

Dear Mr. Schilder,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciates the opportunity to comment on the IAASB's ("Board") exposure draft on revised International Standard on Auditing (ISA) 720, "*The auditor's responsibilities relating to other information in documents containing or accompanying audit financial statements and the auditor's report thereon*", issued in November 2012. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
  - Austrian Auditors Supervisory Authority - Austria
  - Audit Public Oversight Council – Czech Republic
  - Auditors Activities Oversight Council - Estonia
  - Haut Conseil du Commissariat aux Comptes – France
  - Irish Auditing and Accounting Supervisory Authority – Ireland
  - Authority of Audit and Accounting – Lithuania
  - Commission du Surveillance du Secteur Financier – Luxembourg
  - Netherlands Authority for the Financial Markets – The Netherlands
  - Finanstilsynet – Norway
  - Conselho Nacional de Supervisão de Auditoria – Portugal
  - Auditing Oversight Authority – Slovakia
  - Slovenian Agency for Public Oversight of Auditing – Slovenia
  - Instituto de Contabilidad y Auditoria de Cuentas – Spain
  - Revisorsnämnden – Sweden
  - Eidgenössische Revisionsaufsichtsbehörde – Switzerland
2. As European audit regulators we consider it important to pursue continuing improvement of standard setting for the audit profession. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

### **Overall considerations**

3. We support the Board's efforts towards enhancing and improving consistency in auditors' practices around the world regarding the verification of other information accompanying the audited financial statements.
4. We believe that the auditor is able to contribute to increasing the reliability of financial information, on the basis of which economic decisions could be taken, by virtue of the knowledge

acquired during engagements, and by performing external verifications on documents accompanying audited financial statements. We also share the view that auditors should not be put in a position where they could be associated with potentially misleading information that they have not verified.

5. **We therefore consider it important to clearly define the objective, the scope and the required work expected from the auditor. These should be clearly reflected in the audit report, in order to avoid any increase in the "expectation gap" or any misunderstanding among financial statement users about the role of the auditor and the level of assurance provided. The enforceability of the provisions of the standards is also important for audit regulators.**
6. In this regard, we think that some of the proposals set out in the Exposure Draft (ED) are not fully satisfactory. Our main concerns are detailed below.

### **Objective included in the proposal**

7. We consider that the general objective<sup>1</sup> does not clearly state the goal expected to be achieved by the auditor through the work performed on other information. We understand the fact that the auditor neither issues an audit opinion nor provides a review conclusion as defined by other ISAs. Nevertheless, the objective to "respond appropriately" remains unclear (see also our comments on the level of work effort required - §11).

### **Scope of "other information"**

8. We support the Board's proposal to extend the scope of the former ISA720 to include other documents that do not "contain" the audited financial statements. However, the standard should define precisely which documents are included and excluded from the scope of the standard, and consequently, which documents the auditor is expected to verify along with the audited financial statements.
9. In this regard, we are concerned about a potential misunderstanding regarding what constitutes the "initial release"<sup>2</sup> of the financial statements and regarding the issuance of documents "in connection with" the initial release<sup>3</sup>, as this may give rise to differing results depending on the jurisdictions, and depending on the type of entities audited, especially for public sector entities. In addition, the assessment of the "primary purpose"<sup>4</sup> of the document to determine if a document is within the scope of the auditor's verification or not could raise some inconsistencies in the application of the standard. Users would certainly expect the auditors to have checked significant financial information in documents disclosed with the audited financial statements, even if this financial information is contained in a document whose primary purpose is not to comment on the audited financial statements. It would be helpful to use criteria giving less room for interpretation, in order to clarify the responsibilities of the auditor.
10. We concur with the Board's statement that securities offering documents, including prospectuses, are generally subject to specific requirements under national law or regulation. As these

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<sup>1</sup> ED §8

<sup>2</sup> ED §9.b. A4, A6

<sup>3</sup> ED §9.c

<sup>4</sup> "...primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process..." § 9.c.ii.

documents are dedicated to informing investors and market regulators, it would be appropriate to develop convergence at an international level on the auditor's involvement regarding those documents. Also, we would be in favour of a description of the minimum level of work required from the auditor on those documents. This minimum could be supplemented in jurisdictions where national regulations are more stringent. However we believe it would be preferable to address this subject in another specific standard, and to completely exclude securities offering documents from this ED ISA720, thus avoiding any confusion.

### **Level of work effort required**

11. We are of the view that the proposed approach for determining the extent of work to be performed makes it very difficult to determine what is required from the auditor, and, as a consequence, it is difficult for the user to understand what work has been performed.
12. The requirement in the proposal to "read and consider"<sup>5</sup> the information contained in the documents that are in the scope of the ISA is unclear and could lead to a variety of applications. We would support precise requirements on the level of work expected, depending on the type of information contained in the documents.
13. We believe that some form of verification of the other information, such as checking or agreeing significant financial information to the audited financial statements<sup>6</sup>, should be required audit procedures rather than guidance. Indeed, the users of financial information would probably expect that an auditor has reconciled the significant financial information to the audited financial statements, in documents that are made available together.
14. In addition, we suggest mentioning that auditors, when examining the other information, should take into account their understanding of the entity and its environment<sup>7</sup>, which includes the outcomes of the audit. The auditor should also not disregard the information gathered or acquired outside the course of the audit.
15. Finally, we believe that the level of assurance (or of comfort provided by the auditor) that is associated with the detection of "material inconsistencies" as defined in this standard, could give rise to questions. Providing this definition of an "inconsistency"<sup>8</sup> could impair the already existing common understanding of this notion (especially when used outside its context in the audit report<sup>9</sup>). Explaining within the requirements section what the auditor is expected to identify<sup>10</sup> would be a preferred solution. The potential consequences of this definition on other standards using this terminology should be carefully assessed.

### **Reporting on "other information"**

16. We support the Board's proposal<sup>11</sup> that requires the auditor to explicitly disclose in the audit report which documents have been taken into account, based on the common definition set in the standard, in order to inform the users and to minimize the expectation gap.

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<sup>5</sup> ED § 11

<sup>6</sup> ED §A37 provides guidelines on what the work that **may** include, but no requirement.

<sup>7</sup> ED § 8.a, ED § 11

<sup>8</sup> ED § 9.a

<sup>9</sup> ED § 16.c

<sup>10</sup> ED § 12

<sup>11</sup> ED § 16.b

17. We consider that the timing of the issuance of the audit report should not result in the auditor omitting action or reporting with regard to other information. As a principle, the auditor should not issue the audit report until the other documents have been made available to the auditor, and unless laws and regulations impose otherwise. In addition, the arrangements to be made with management should allow the entity and the auditor to put in place an organisation whereby the documents are provided in a timely manner before the date of the auditor's report<sup>12</sup>. Further requirements or guidance would nevertheless be necessary in this standard, to indicate which "appropriate action"<sup>13</sup> the auditor should take when the other information is obtained late, while maintaining the connection with the auditors' procedures for dealing with subsequent event (ISA560).<sup>14</sup>
18. In connection with our comments above (see §8) on the need to define more precisely the work effort required, we would also support a more precise description of the work and procedures performed by the auditor in the audit report<sup>15</sup>, rather than a statement in the audit report about what the auditor did not perform<sup>16</sup>.
19. We also call the attention of the Board to the need for articulation between the standards dealing with the audit report (ISA700-705-706) and this proposed standard, in order to address, for instance, the placement of the reporting required by ED ISA720 within the ISA audit report.

We thank you for the opportunity to comment on the exposure draft. If you have any questions or would like to further discuss the matters noted in this letter, please contact Marjolein Doblado, technical director of the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Sincerely,

Audit regulator of:

Austria  
Czech Republic  
Estonia  
France  
Ireland  
Lithuania  
Luxembourg  
The Netherlands  
Norway  
Portugal  
Slovakia  
Slovenia  
Spain  
Sweden  
Switzerland

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<sup>12</sup> ED § 10.b "if possible" should be deleted.

<sup>13</sup> ED § 14.b

<sup>14</sup> See also our comments §9.

<sup>15</sup> ED §16.c

<sup>16</sup> ED §16.d