

March 14, 2013

International Federation of Accountants
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Response e-mailed to www.ifac.org

RE: Response to the International Auditing and Assurance Standards Board (IAASB) Exposure Draft - "The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon"

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to the subject exposure draft. We applaud the IAASB's effort in soliciting feedback from diversified stakeholders. Our comments are based on a thorough analysis and discussion, utilizing a core team of governance, compliance and audit experts who serve on The IIA's Professional Issues Committee (PIC). These individuals consist of Certified Internal Auditors, Certified Public Accountants, Chartered Accountants, audit executives and consultants who have worked in both public accounting and management positions in small, medium and large multinational organizations.

The following are our principal comments regarding the exposure draft. Detailed responses to the questions posed are summarized in Appendix A – Significant Matters and Requests for Specific Comments.

1. The IIA agrees that broadening the scope with the proposed revisions to ISA 720 to include other information in documents containing or accompanying the audited financial statements and the financial statement auditor's report thereon is appropriate and can reduce both the information gap and the expectation gap.

Financial statement auditors often perform additional tasks, such as reading information accompanying the audited financial statements. We believe that codifying and disclosing this additional work is prudent and should promote transparency and accuracy. However, additional definition is necessary to reduce the potential for costs and benefits to become unbalanced or for the level of assurance that's being provided to be misconstrued.

Specifically, the standard should define the areas (e.g., other information) over which the financial statement auditor has extended responsibility and define such responsibility to clarify stakeholder expectations and limit liability to the financial statement auditor.

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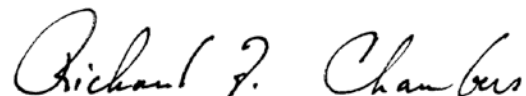
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We also believe the financial statement auditor should work closely with and leverage work performed by others who are appropriately segregated from the creation of other information, such as internal auditors.

2. We believe the users of financial statements as well as financial statement auditors may find the concept of “initial release” to be vague. Limiting additional information encompassed by the financial statement auditor’s report to “initial release” may not allow for various uses of financial statements and future changes in reporting. To provide appropriate clarity and flexibility, we believe the financial statement auditor's report should explicitly state what other information is encompassed by their report, albeit to a limited extent. Such reporting would provide those charged with governance (TCWG) the ability to utilize the financial statement auditor to meet various users’ needs in contexts where they are in the best position to evaluate as appropriate, including multi-purpose reporting packages. The proposed ISA 720 should specify that TCWG should decide what information should be encompassed by the limited procedures of the financial statement auditor in the financial statement auditor’s report. In making the decision of what the financial statement auditor’s report will encompass, TCWG may be influenced by cost/benefit considerations, regulations as well as market factors.

The IIA is well-equipped to support those IAASB projects that are related to the core competencies of internal auditing: governance, risk management and control. We value the opportunity to collaborate, share, contribute and learn. We welcome further discussion on any of these recommendations and offer our assistance in the continued development of these projects.

Best Regards,

A handwritten signature in cursive script that reads "Richard F. Chambers".

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (*Standards*). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 109 affiliates in 190 countries that serve members at the local level.

Q1. 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?

Financial statement auditors often perform additional tasks, such as reading information accompanying the audited financial statements. We believe that codifying and disclosing this additional work is prudent and should promote transparency and accuracy. Therefore, we generally agree that the answer is yes to both questions above. However, additional definition is necessary to reduce the potential for costs and benefits to become unbalanced or for the level of “assurance” that’s being provided to be misconstrued. Specifically, the standard should define the areas (“other information”) over which the financial statement auditor has extended responsibility, define such responsibility (less than audit “assurance”) so as to clarify stakeholder expectations and limit liability to the financial statement auditor.

We also believe the financial statement auditor should work closely with and leverage work performed by others who are appropriately segregated from the creation of other information, such as internal auditors.

Q2. 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?

The IIA agrees that broadening the scope of the proposed revisions to ISA 720 to include documents that accompany the audited financial statements and the financial statement auditor’s report is appropriate. As noted in #1 and elsewhere in this response, additional guidance is warranted.

Q3. 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?

The term “initial release” is vague. Since the concept of having the financial statement auditor’s report encompass, albeit to a lesser extent, additional information, we believe the financial statement auditor’s report should be clear as to what is included in other information. For absence of doubt, the financial statement auditor’s report should indicate specifically the other information which is encompassed. This would have the added benefit of allowing for evolution in “initial” and multi-purpose reporting packages and possible different versions of an “annual report” for multi-purposes. TCWG should decide what information should be encompassed by the limited procedures of the financial statement auditor in the financial statement auditor’s report. Of course, TCWG, in making their decision of what the financial statement auditor’s report will encompass, may be influenced by cost/benefit considerations, regulations as well as market factors.

Q4. 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?

TCWG hiring the financial statement auditor should decide based upon cost/benefit, regulatory, market and other factors what "other information" they would like to have encompassed in the report by the limited procedures of the financial statement auditor. See also #3 above.

Q5. 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?

Additional guidance would be helpful and significant caution is warranted surrounding information a) as its indirect association to the audited financial statements increases (e.g., non-financial information), and b) which is not historical in nature (e.g., prospective information).

The term "acquired during the audit" may be confusing to some. We recommend "...acquired in the performance of the financial statement audit." Lastly, the phrase "and its environment" is also vague and we recommend "...acquired in the performance of the financial statement 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?

Yes, however, the financial statement auditor’s report should include language as per 16a. We recommend, "...for the purpose of identifying whether there are material inconsistencies among the audited financial statements, management's disclosures and/or information and evidence obtained during our audit...no assurance is provided upon the other information and other information was not necessarily subject to audit procedures."

Another consideration would be to have TCWG, management or internal audit perform procedures on the other information either to be disclosed in addition to the financial statement auditor’s report, or to supplement the procedures of the financial statement auditor.

Q6. 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?”

We believe the definitions are reasonable; however, please consider the frame of reference. One could read the comment "...inconsistency in the other information" as being material in relation to a frame of reference within the other information itself. It may be prudent to specify the frame of reference for materiality in the other information as it relates to the financial statements.

Q7. 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?

Yes, 9(a) (i) and (ii) are sufficiently understandable.

Q8. 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?

We agree that a principles-based approach 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?

A37 primarily addresses simple and somewhat historical information. We suggest A37 be expanded to make clear what is expected of the financial statement auditor (if anything) for situations where the other information is not as directly related to the financial statements or non-historical information. Examples could include projections, sustainability or corporate responsibility reporting, and subjective information such as employment practices or political views. Please see responses to questions 3 and 4 above. We note it may be appropriate to cite examples of other information to which the financial statement auditor should not apply any procedures.

(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, however, please see response to 8b is above.

Q9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

Yes, however, please see response to 8b above.

Q10. 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?

We believe it is clear what the financial statement auditor’s response should be if the prior understanding was incorrect or incomplete. We appreciate the distinction that the IAASB provides for financial statement auditors of government entities. With regard to one of the general questions, we note that there may be regional considerations, notably in developing economies where options for auditors may be limited.

Q11. 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?

We believe that some improvements can be made:

1. Paragraph 4 – We recommend the language “...some documents...may include information ...beyond the auditor’s understanding...the auditor is not required to seek to enhance the auditor’s understanding...beyond that required for purposes of the audit.” The same paragraph also includes the following which is rather confusing, “...such other information is nevertheless within the scope of this ISA.” Please see our related comments in responses to questions 3 and 8b above.
2. Paragraph 9 - The term “economic decisions” (as used in the phrase “and 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...”) is overly broad. We recommend replacing with “a financial statement evaluation.” Also the term “user” may be better defined as a “qualified user” or “informed user.”
3. Paragraph 11 – The language “and its environment...” could be misconstrued as most entities operate in multiple environments (e.g., geographic, economic, political, social, etc.).
4. Paragraph 18 – We recommend adding the term “additional” to clarify added tasks or responsibilities with respect to paragraph 18 (“A description of the auditor’s additional responsibilities with respect to the other information”).
5. Paragraph A28f – We recommend adding clarification to indicate “the entity’s internal controls over financial reporting.”

(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?

Yes, however, please see response to 5b.

Q12. 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?

Yes, however, please see response to 5b.