



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

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Mr J. Sylph  
Technical Director  
International Auditing and  
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NY 10 017 – USA

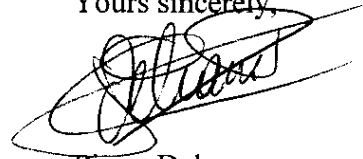
**Subject:** **Comment on the Exposure Drafts of ISA 720 – *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements***

Dear Mr Sylph,

1. We appreciate the opportunity to comment on the proposed redrafted International Standards on Auditing 720 on The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
2. The European Commission will carefully consider whether ISA 720 should form part of standards to be adopted by the Commission. Indeed, it is not obvious to which extent ISA 720, as currently drafted, contributes to audit quality of the financial statements. As you know, audit quality is a key issue under Article 26 of the 8<sup>th</sup> Directive on Statutory Audit. We do appreciate the existing requirement for an auditor to consider whether material inconsistencies may signal a problem with the financial statements. However this ISA, as stated in the objective, is oriented towards avoiding the auditor being associated with misleading other information. We would appreciate seeing more positive signs that this ISA is also designed for the good of users of financial information. We are also pleased to share other comments which we believe are useful to the IAASB - see Appendix.
3. I would like to recall that this comment letter cannot pre-empt any future official position of the European Commission. In particular, our position on the above ISAs, and the objectives therein, may be modified depending on the outcome of the future revision of ISA 200 in the frame of the Clarity project.

4. The comments in this letter have taken account of the views expressed within the European Group of Auditors' Oversight Bodies (EGAOB), and/or within subgroup 'ISA' of the EGAOB. The 'ISA' subgroup is comprised of participants from European organisations including audit regulators, standard setters on auditing, professional bodies, and companies. Those comments may not necessarily reflect in all circumstances unanimous views of the members of the EGAOB and/or of the participants to the EGAOB 'ISA' Sub-group'.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Delsaux', written over a large, stylized circular flourish.

Pierre Delsaux  
*Director*

Cc: Jürgen Tiedje, European Commission

## Appendix – Comments on International Standard on Auditing 720

### **Is the objective to be achieved by the auditor stated in each of the proposed redrafted ISAs appropriate ?**

- In general, our position may depend on the outcome of the future revision of ISA 200 under the Clarity project.
- In addition, we believe the way the objective is stated is not appropriate in two ways:
  - Certainly, we can accept that ISA 720 should not extend the auditor's responsibility for other information beyond legal requirements. However, we believe that the objective of the auditor should be to respond appropriately, should other information encompassing the financial statements undermine the credibility of these statements. The objective should be worded in a way demonstrating how this ISA contributes to the credibility and quality of financial statements.
  - Sub-paragraphs (a) and (b) are procedure rather than outcome oriented. We suggest deleting these sub-paragraphs.

### **Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?**

- Paragraphs 16 and 17 are unclear what is actually required due to the use of vague terms such as “procedures necessary under the circumstances” or “further appropriate actions” that the auditor shall carry out. We suggest transposing the related paragraphs A12 and A13 under the Application Material into the Requirements section.

### **Request for specific comments**

- We strongly support deletion of the second sentence of paragraph 2, since referring to securities offering or any other circumstance is not the purpose of this ISA. Moreover, such responsibilities are usually set by securities law.

### **Other comments**

- ISA 720 as currently structured lacks clarity regarding the auditor's responsibility with respect to the scope of work required. We have identified a list of concerns:
  - Interaction with the auditor's legislative environment. ISA 720 conveys the message that the auditor takes no responsibility for the other information (par. A1) beyond what is stated in national law (par. A3). In our view, such statements which are the core of how ISA 720 is constructed should appear in a much authoritative way than in the Application Material, i.e. possibly in the Objectives or Requirements section.
  - The term “other information” needs to be circumscribed by incorporating paragraph A6 directly into the body of the definition.

## Appendix – Comments on International Standard on Auditing 720

- Some definitions cover a too wide array of circumstances, thus carrying the risk of leading to overburdening the audit, as exemplified in the following list:
  - (a) Any misstatement of fact, not just the material ones, seems to be covered by paragraphs 11 to 13. The definition and section relating to "Misstatement of Facts" should be amended to refer to only the "material" ones.
  - (b) Since "owners" of the financial statements are not defined, auditors might interpret this extensively and finally try to address an unnecessary wide array of persons. This term needs either to be defined or further explained in the Application Material.
- On the other hand, the definition of "inconsistency" or "material misstatement of fact" should in our opinion also include circumstances where omitted information undermines the credibility of the financial statements.
- Finally, we believe that paragraph A8 should address the cases where an auditor is prohibited from resigning by law or other circumstances.