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Dear Mr Sylph

Proposed Clarified International Standard on Auditing 720 – The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

Dear Mr Sylph

The Committee of European Banking Supervisors welcomes the opportunity to comment on the *Proposed Clarified International Standard on Auditing 720 – The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (ISA 720)*.

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

In general we welcome the clarity with which the ISA is written and we only have a few comments about the objective, requirements and application material. These are noted in the attached appendix 1, which covers our response to your questions for commentators. However, we do note there are some aspects of the ISA where we believe more substantive revisions are necessary. These suggested revisions are noted in appendix 2.

In summary, we suggest that the objective for the ISA should be more direct and that some of the requirements, given their location in the ISA, may not promote consistency in performance.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely



Daniele Nouy
Chair

Appendix 1

Comments on ISA 720 – The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (ISA 720)

1. Is the objective to be achieved by the auditor stated in the proposed redrafted ISA appropriate?

We believe the objective could be phrased in a more direct manner. Rather than ‘avoiding being associated with’, the objective could state directly ‘to ensure that the credibility of the audited financial statements is not undermined by other information.’ This would also flow more logically from the overall objective of the auditor.

2. 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 judgement by auditors.

Definition of misstatement of fact

We are not sure why ‘material misstatements of fact’ have become ‘misstatements of fact.’ Surely the auditor should not need to identify all misstatements of fact but only material misstatements?

Requirement re obtaining the other information in para 7

In the last sentence of para 7, the scenario is covered where an auditor may only receive the other information after the date of the audit report.

We are concerned that, in dealing with the situation in some jurisdictions where the other information may be provided *after* the signing of the audit report, this undermines the presumption that such other information should be provided *before* the date of the audit report, and reviewed before the signing of the audit report in accordance with ISA 720.

We would therefore suggest that this last sentence is either:

- (a) removed from the requirements and included in the application material as it is a possible scenario in some circumstances;
- (b) dealt with as a separate requirement in the last section ‘availability of other information after the date of the auditor’s report’; or
- (c) the wording of the last sentence of para 7 is changed as follows “if it is not possible to obtain the other information prior to the date of the auditor’s report, the auditor shall follow requirements laid out in para 14, 16 and 17.

Which treatment is appropriate should depend on how likely it is this will happen in a great number of jurisdictions.

The last sentence in paragraph A 7 does not seem to add anything. It would be better to include some more detail about what procedures the auditor could take if the other information is not received before the date of the auditor’s report e.g. communicating with those charged with governance. However, there could also be cross-references to the need to specify in the letter of engagement, that the ‘other information’ is provided before the signing of the audit report.

3. Paragraph 2 – comments about the applicability of ISA 720 to other information in securities offerings.

No comment

Appendix 2

Other proposed revisions

Requirements paras 10 & 13

Requirements 10 & 13 provide for different paths the auditor should take if there is either a material inconsistency or a misstatement of fact between the audited financial statements *and* other information.

We appreciate that this follows from the original unclarified ISA. However, we believe that, from the perspective of users, there is no justification for the auditor to take different paths. We would recommend that the procedures laid out in paragraph 10 should apply to both scenarios.