



Chairman

Via email: ArnoldSchilder@iaasb.org

Mr Arnold Schilder
Chairman
International Auditing and Assurance
Standards Board
529 Fifth Avenue, 6th Floor
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Invitation to comment: ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

Dear Mr Schilder

The Basel Committee on Banking Supervision welcomes the opportunity to comment on the IAASB's November 2012 Exposure Draft (ED) of proposed International Standard on Auditing (ISA) 720 (Revised): *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*. We have a strong interest in ensuring that banks' published financial and non-financial information, including audited financial statements and the auditor's report thereon, help to exert effective market discipline over these institutions. In addition, information published by banks could help inform supervisory activities related to the prudential oversight of these firms. The Committee recognises the key role auditors play in identifying and requesting correction of material inconsistencies in other information contained in or accompanying the audited financial statements.

The Committee supports the direction of the ED to: (1) extend the scope of ISA 720 to include documents accompanying the audited financial statements; (2) extend the auditor's responsibilities to include not only reading the other information for consistency with the audited financial statements but also reading and considering the other information for consistency with the auditor's understanding of the entity and the environment acquired during the course of the audit; and (3) bring transparency of the auditor's work through new reporting responsibilities with respect to other information. We believe that these changes would increase the value of the audit and enhance the credibility of the other information that is essential to users of audited financial statements in assessing a bank's financial position.

Our comments on the ED are set forth in the attached Annex. In our view, certain clarifications and revisions should be made to the scope of application of this proposed ISA. Also, we suggest further clarifying the definition and meaning of some key terms, and enhancing the auditor's reporting requirements.

In addition, we recommend that the IAASB review the statements required to be included in the auditor's report under this proposed ISA to ensure that they are consistent with the changes likely to be proposed in connection with the IAASB's project on the auditor's reporting model.

This letter and our detailed observations and comments in the attached Annex have been prepared by the Committee's Accounting Task Force, which is chaired by Mr René van Wyk, Registrar of Banks at the South African Reserve Bank. If you have any questions regarding our comments, please feel free to contact Mr van Wyk (+27 12 313 3601), or Xavier-Yves Zanota at the Basel Committee Secretariat (+41 61 280 8613).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Stefan Ingves', is centered below the text 'Yours sincerely'.

Stefan Ingves

Annex

The Committee's comments on the IAASB's November 2012 Exposure Draft of International Standard on Auditing (ISA) 720 (Revised): *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, are as follows:

Scope

In our view, additional clarifications and guidance are required in the scope of application of this ISA, particularly for determining whether a document that accompanies the audited financial statements is (or is not) included within the scope of the ISA. We therefore urge the IAASB to develop an enhanced principle on which information is within scope that would more likely result in consistent application of the ISA. The following provide specific examples of areas where we believe clarification is needed:

- One of the more common reports issued by banks accompanying their audited financial statements are the Pillar 3 reports that are part of the Committee's regulatory framework. It is currently unclear in the ED if Pillar 3 reports are included within the scope of this ISA when they accompany audited financial statements. A Pillar 3 report provides key disclosures of a bank's capital, risk exposures and risk assessment processes. These disclosures enhance and complement a user's understanding of a bank's audited financial statements. We believe it is very important that Pillar 3 reports accompanying financial statements are within the scope, so we would strongly urge the IAASB to make it clear that is the intention. For example, data on regulatory capital and risk exposures and descriptions of risk assessment processes could be added to the examples of quantitative and qualitative financial information in the ISA's Appendix;
- Paragraph 4 states that documents within the scope of the ISA may include other information that extends beyond the auditor's understanding of the entity and its environment that was acquired during the course of the audit. However, when such information is present, the ISA states that the auditor is not required to seek an enhanced understanding of the entity and its environment beyond that required for purposes of the audit. It would be unclear to a user of a document containing or accompanying audited financial statements what information extends beyond the auditor's understanding of the entity and its environment and what does not; as a result, users could draw false comfort from the auditor's work. That lack of clarity is a concern to the Committee;
- Paragraph A13 provides examples of accompanying documents that are not within the scope of the ISA. This is because they do not have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process. At the same time, this paragraph also makes clear that, if any of the information of the nature of such accompanying documents is instead contained in a document that is within the scope of this ISA, the information would then be subject to the requirements of this ISA. For example, if Bank A includes a sustainability report in its annual report, which includes the banks' audited financial statements and the auditor's report thereon, the sustainability report would fall within the scope of the ISA. However, if Bank B issued a similar sustainability report as a separate document, its sustainability report would not be within the scope of the ISA. Therefore, the bank's auditor would not be required to read and consider this report. It is unclear why differences in where

information is located, would result in different coverages/approaches by auditors under this ISA.

Definitions

- Paragraph 9(a) defines the term “inconsistency in the other information.” Although the meaning of this term in the context of the auditor’s understanding of the entity is discussed in the Explanatory Memorandum on page 10 of the ED, this meaning has not been incorporated into the definition in paragraph 9(a). We recommend that the definition be clarified to state that an inconsistency in the other information exists when there are differences identified by the auditor between the other information and the audited financial statements, as well as between the other information and the auditor’s understanding of the entity and its environment acquired during the audit;
- Paragraph 9(a) also explains when an inconsistency in the other information is material. Because of the brevity of the explanation and the limited application material on material inconsistencies in the ISA, we recommend that references to ISA 320 *Materiality in Planning and Performing an Audit*, and ISA 450 *Evaluation of Misstatements Identified During the Audit* (in particular paragraphs A15 and A16) be included in this paragraph. This would emphasise the auditor’s responsibility to determine materiality and consider quantitative and qualitative factors in evaluating whether any identified inconsistencies are material.

Reporting

- There is often a gap between what users expect auditors to have covered in their work on the other information and the work auditors undertake with respect to the other information. We believe that there is merit in considering whether paragraph 16 could be expanded to require the auditor’s statement to include the definition of “inconsistency in the other information” (with the clarification discussed above) and the description of a “material inconsistency” from paragraph 9(a). We therefore encourage the IAASB to consider whether this would improve the transparency of the auditor’s report and help narrow the expectations gap of users of audited financial statements;
- There may be some confusion between the requirements of paragraph 16(b) and footnotes 18 and 19 which are referenced in paragraphs A57 and A58 respectively, of the Application and Other Explanatory Material. We recommend that the language in these footnotes be revised to convey more clearly that they are referring to specific sections of the “other information” contained in a document that the auditor has read and considered. In this regard, the language in the two footnotes could be revised to read: *“In addition to identifying the specific documents that contain the other information that the auditor has read and considered, the auditor may, if considered helpful, clearly describe the other information, e.g., the Chairman’s Statement, the Business Review, etc.”*