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June 26, 2007

Mr. James M. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Email address: Edcomments@ifac.org

Re: Proposed Redrafted International Standard on Auditing 720, *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing, *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements* (the ED). As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable. Our comments in this letter

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reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

In general, we welcome the changes that have been made in clarifying and redrafting ISA 720 and believe the proposed standard is an improvement over the existing standard; however, we have identified some instances of imprecise or unclear language that should be revised before the standard is finalized. We comment on these matters in this letter.

Objective - Paragraph 4

We question the adequacy of the statement “The objective of the auditor is to avoid being associated with other information that may undermine the credibility of the financial statements” as the first sentence of the proposed objective. Based on the requirements that are later laid out in paragraph 6 and paragraph 17, the auditor has a greater responsibility than just to “avoid being associated with other information that may undermine the credibility of the financial statements.” We recommend for consideration:

The objective of the auditor is to determine that: 1) other information in documents containing financial statements does not undermine the credibility of the audited financial statements, and 2) the auditor has responded appropriately to material misstatements of facts and material inconsistencies in other information, regardless of whether the audited financial statements are affected by such matters.

We also recommend deleting 4(a) and 4(b) in the presently stated objective, as these sentences essentially describe procedures that are repeated in the Requirements section. We believe the requirements describe the steps necessary in order for the auditor to achieve the objectives. Therefore, we recommend deleting them because they do not represent objectives and are redundant of the content in the Requirements section.

Definitions - Paragraph 5

The extant ISA uses and defines the terms “Material Inconsistency” and “Material Misstatement of Fact”, but paragraph 5 of the ED defines the terms “Inconsistency” and “Misstatement of Fact”. It is unclear to us why the word “Material” was dropped as a qualifier for “Inconsistency” and “Misstatement of Fact” within these definitions. It is also unclear to us why the inconsistency exists within the Requirements section with using “Material” for “Inconsistencies” (in paragraph 8) but not for “Misstatements of Fact” (in paragraph 11).

We are unsure if the different treatment of the two terms in this ISA is simply a drafting issue or if it is intended that different substantive actions occur for each. We ask the Board to clarify this in the final standard.

Requirements

Reading Other Information - Paragraph 7

The existing ISA 720 states that the auditor is to obtain other information “prior to the date of the auditor’s report” (paragraph 9); however, the current ED states in paragraph 7 that such information is to be obtained “on a timely basis” and states that “if it is not possible to obtain such information prior to the date of the auditor’s report, the auditor shall read such information at the earliest practicable opportunity thereafter.”

We are concerned that this is a substantive change in an audit requirement and there is no explanation of the rationale for this change, either in the Explanatory Memorandum accompanying the ED or in the related mapping document.

We recommend incorporating into the ED the language in paragraphs 20 through 23 of the existing ISA 720, which deals with the availability of other information after the date of the auditor’s report and what should be done when an inconsistency or misstatement of fact is discovered. This would enhance the guidance for the second sentence of paragraph 7.

Material Inconsistencies, Misstatements of Fact, and Availability of Other Information After the Date of the Auditor's Report - Paragraphs 10, 13, 16 and 17

We noted frequent uses of imprecise phrases such as the auditor shall take “further appropriate action” or shall carry out the “procedures necessary under the circumstances” in the ED. Please see paragraph 10, 13, 16 and 17 as examples.

Phrases such as “further appropriate action” and “procedures necessary under the circumstances” are highly subjective and ambiguous and therefore carry little weight as requirements in a standard. We recognize that there are many times when auditor judgment must be applied in an audit, but we question whether such imprecise terms are appropriate for the use in the Requirements section, especially since there is little elaboration provided in the related paragraphs in the Application and Other Explanatory Material section. Rather, the related Application Material paragraphs (A8 - A13) are brief descriptions of a few possible actions. We recommend combining the related application materials with paragraphs 13, 16 and 17 and making other revisions as needed, in order to make the requirements understandable as written.

Application and Other Explanatory Material - Paragraphs A8, A11 and A13

We note these three paragraphs provide guidance for the auditor when a material inconsistency or misstatement of fact exists that management refuses to correct. A11 and A13 both indicate that in such an instance, appropriate action for the auditor could or may include notifying those charged with governance; however, paragraph A8 makes no reference to notifying those charged with governance.

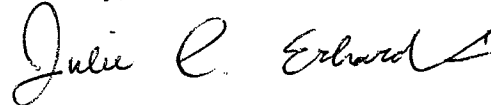
We recommend adding notifying those charged with governance as one of the appropriate actions in A8 as well.

We would also like to point out that if management refuses to correct a known material inconsistency or misstatement of fact, it should draw into question management's integrity. Therefore, in instances where the auditor receives the other information prior to the date of the auditor's report, and management refuses to correct material inconsistencies or misstatements of fact, the auditor should consider the effect of management's refusal on the rest of the audit. We recommend adding such guidance to paragraphs A8 and A11, which are currently silent on the issue.

See Appendix A for two other comments.

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me or Susan Koski-Grafer at 202-551-5300, or contact any member of the IOSCO Standing Committee No. 1 Auditing Subcommittee.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

Appendix A

Reponses to Specific Questions in the Exposure Draft

- 1. Is the objective to be achieved by the auditor, stated in each of the proposed redrafted ISAs, appropriate?**

We believe the objective is stated inadequately - please see our comment earlier in this letter.

- 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 judgment by auditors?**

Our focus in reviewing this Exposure Draft was on how well we believe the resulting standard will support the public interest by contributing to high quality audits, rather than on the Board's methodology for redrafting the standard and determining requirements. In this regard, please see our comments regarding requirements earlier in this letter.