



American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

July 18, 2014

Mr. James Gunn
Managing Director, Professional Standards
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

**Re: Exposure Draft: Proposed International Standard on Auditing 720 (Revised),
“The Auditor’s Responsibilities Relating to Other Information”**

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft.

This letter provides the AICPA Auditing Standards Board’s (ASB) response to the request for specific comments. The ASB is the AICPA’s senior committee for auditing, attestation, and quality control applicable to engagement performance and issuance of audit and attestation reports for nonissuers. Therefore, our comments are provided in the context of audits of non-public entities.

We had previously commented on the IAASB’s November 2012 exposure draft of proposed revised ISA 720 *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon* in a letter dated March 20, 2013. We commend the IAASB for its consideration of the comments received on the November 2012 exposure draft and we continue to be supportive of the IAASB’s efforts to clarify the auditor’s responsibilities with respect to other information.

While we believe that the current proposal is much improved over the November 2012 exposure draft, we believe that there are certain elements of the current proposal that should be addressed prior to issuance of the proposal as a final ISA. We believe that addressing these elements would result in auditors better understanding their responsibilities with respect to other information. We will first address the specific requests for comments from page 13 of the exposure draft. We have also commented on other issues relating to the proposed revised ISA 720 following our responses to the specific requests for comments.

Mr. James Gunn
July 18, 2014

IAASB request 1: Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application, and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

We are supportive of the proposed scope (paragraphs 1-9 of the proposed ISA), the objective (paragraph 11 of the proposed ISA), and the definitions (paragraph 12 and related application paragraphs of the proposed ISA).

However, we have some concerns regarding the requirements related to the auditor's work effort. Those concerns are as follows:

We note that paragraph 14 of the proposed ISA requires the auditor to *consider* whether there is a material inconsistency between the other information and the financial statements and to *consider* whether there is a material inconsistency between the other information and the auditor's knowledge gained during the course of the audit.

While we believe that the use of the verb *consider* is appropriate in paragraph 14, we question why the IAASB determined to require, in paragraph 15, the auditor to perform limited procedures to *evaluate* the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements. We note the following in Agenda item 2-A from the IAASB's March 2014 meeting materials:

The Task Force considered, but rejected, the option of specifying procedures. The Task Force noted that the inclusion of specific procedures in the requirement has the potential to lead to an unintended level of work. For example, specifying any wording, such as "compare amounts," may lead to an unintended inference that all amounts need to be compared, and may require explanation of what "compare" means in relation to qualitative statements, summarized or granular information, etc. The Task Force also noted that specifying procedures may overly focus the auditor's attention on such types of information, and less attention on other types.

We respectfully disagree with the IAASB's Task Force and believe that a verb such as *compare* would be more appropriate than *evaluate* in paragraph 15. This way, paragraphs 14 (*consider*) and paragraph 15 (*compare*) would provide specific actions that the auditor would perform and the subsequent paragraphs would provide the auditor with responses when an apparent material inconsistency is identified. *Evaluate* implies that the auditor is performing procedures to obtain assurance for the purpose of expressing a conclusion regarding the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the

Mr. James Gunn
July 18, 2014

financial statements. We believe that such implication will result in confusion amongst auditors as they will not know the level of work that they need to perform.

Our proposed edit to paragraph 15 is as follows:

15. As the basis for the consideration in paragraph 14(a), the auditor shall perform limited procedures to ~~evaluate~~ **compare** the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements. (Ref: Para. A22-A26)

If the IAASB agrees with our proposed edit, paragraphs A23 and A24 would also have to be revised to eliminate the words *evaluate* and *evaluating* and replaced with *compare* and *comparing*, respectively.

Finally, we believe that paragraph A23 would be more understandable for auditors and placed in the proper context if it was placed after paragraph A24. In this way, auditors would be clear that the determination of procedures to be performed is a matter of professional judgment prior to considering some suggested procedures.

IAASB request 2: Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

Except as otherwise noted herein, we believe that the proposals in the ISA are capable of being consistently applied and interpreted.

IAASB request 3: Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

We believe that the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

IAASB request 4: Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

We agree with the IAASB's conclusion to require the auditor only to read and consider other information obtained after the date of the auditor's report, but not require identification of such other information in the auditor's report or subsequent reporting on such other information. We believe that this is the only practical or operational option.

Other issues with respect to the proposed revised ISA 720:

Mr. James Gunn
July 18, 2014

In addition to our responses to the specific requests on page 13 of the exposure draft, we identified a significant issue with respect to paragraph A54 of the proposed revised ISA 720, which reads as follows:

A54. When the auditor disclaims an opinion on the financial statement, providing further details about the audit, including other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by [proposed] ISA 705 (Revised), the auditor's report does not include a section addressing the reporting requirements under this ISA.

We direct the IAASB's attention to paragraph A53 of the draft proposed revised ISA 720, which states that an adverse opinion on the financial statements does not justify the omission of reporting of material misstatements of the other information that the auditor has identified. We agree with the guidance in paragraph A53 and believe that neither an adverse opinion nor a disclaimer of opinion on the financial statements should preclude an auditor from his or her reporting responsibilities with respect to other information when the auditor has knowledge that the other information is materially misstated.

We also identified an issue with respect to documentation. Paragraph 24 of the proposed revised ISA 720 requires that the audit documentation include the final version of the other information on which the auditor performed the required work. We believe that the IAASB should consider whether the proposed revised ISA 720 should also include a documentation requirement for the auditor's agreement with management as to which documents comprise the annual report and the planned timing of the entity's issuance of such documents (the requirement to identify the documents is in paragraph 13(a) of the proposed revised ISA 720).

Finally, we believe that there should be a requirement that the auditor obtain a written representation with respect to the completeness, accuracy, and consistency of the other information provided to the auditor. Such representation may read:

"We have provided you with all information which comprises our annual report and affirm that such information is accurate and consistent with the financial statements."

IAASB Question with respect to the proposed effective date of the proposed revised ISA 720

We agree that the effective date of the proposed revised ISA 720 should be, to the extent possible, aligned with that of the IAASB's Auditor Reporting project. We further agree with the IAASB that an appropriate effective date for the proposed revised ISA 720 would be 12-15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions aligning from the auditor reporting project. We agree that early application should be permitted.

Mr. James Gunn
July 18, 2014

Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Mike Glynn at mglynn@aicpa.org.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bruce P. Webb".

/s/ Bruce P. Webb
Chair, Auditing Standards Board