



March 20, 2013

Mr. James Gunn  
Technical Director  
International Audit and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

**Re: Exposure Draft: Proposed International Standard on Auditing 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. 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 designated for issuing auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for non-public entities (nonissuers). Therefore, our comments are provided in the context of audits of non-public entities.

We have based our specific responses on the following concepts and principles. We believe that the following concepts are appropriate with respect to the auditor’s responsibilities for other information:

- Unless engaged to do so, the auditor is not responsible for evaluating the completeness and accuracy of other information.
- The auditor is only responsible to read and consider whether other information is inconsistent with the audited financial statements or whether it contains any apparent material misstatements of fact.
- The auditor is only responsible for reading and considering other information available at the time of the initial release of the financial statements and auditor’s report thereon.

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- The auditor can only be responsible for other information of which the auditor is aware.
- It is important for the auditor to read other information and act appropriately when there are material inconsistencies between the other information and information contained in the audited financial statements and to protect the credibility of the audited financial statements from apparent material misstatements of facts in other information.

These concepts represent the limits of the auditor's responsibility for other information. Any further procedures or the obtaining or providing of assurance of any kind is only appropriate when the auditor is engaged to perform such procedures or obtain assurance.

We provide the following responses to the exposure draft questions with the aforementioned concepts in mind.

**IAASB question 1: Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?**

The ASB agrees that additional transparency is needed with respect to the auditor's responsibilities for other information. Accordingly, the ASB supports expanding the auditor's responsibility to read and consider the other information in light of the understanding of the entity and its environment acquired during the audit and to include an other matter paragraph in the auditor's report describing:

- The other information the auditor has read and considered;
- Management's responsibility for the other information;
- The auditor's procedures with respect to the other information;
- Whether or not the auditor identified any material inconsistencies between the other information and the audited financial statements;
- The inherent limitations of the auditor's procedures; and
- A statement that the auditor does not express an opinion or any form of assurance on the other information.

**IAASB Question 2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?**

The ASB believes that the proposed expansion of the documents that the auditor would be required to consider as other information would expand the costs and risks incurred at levels that would exceed any benefits. Chief among those issues is the expansion of the auditor's responsibilities to documents *accompanying* the audited financial statements. ASB acknowledges that in some cases other relevant information may be included in documents that accompany audited financial statements. However, expanding the definition of other information to information that accompanies audited financial statements places the auditor in the

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unreasonable position of having to respond to such information by performing certain procedures called for by the proposed revised ISA when the auditor may not have even been aware of the information that accompanied the audited financial statements. At a minimum, the proposed revised ISA should require the auditor to perform procedures only with respect to other information *of which the auditor is aware*.

Further, ASB believes that the scope of the proposed revised ISA 720 is unacceptably broad as it includes documents that have a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process (see paragraph 9(c)) of the proposed revised ISA 720). The scope is overly subjective with respect to the users' understanding and creates a likelihood of broadly differing interpretations between auditors thus creating an unnecessary diversity in practice as well as a likelihood of broadly different expectations between auditors and users of the information.

**IAASB Question 3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?**

ASB believes that the proposed timing of when "first made generally available to the group of users for whom the auditor's report is prepared, often the shareholders" is open to interpretation. A disparity in interpretation would lead to an unnecessary disparity in practice. For example, the guidance in paragraph A4 appears to default to when the report is released to shareholders. However, not every entity has shareholders and the auditor's report may be prepared for more than one group of users. Private entities, not-for-profit organizations, and governments each may release audited financial statements and the auditor's report thereon to governance bodies, regulators, bond rating agencies, financial institutions, other governments, or other users. ASB believes that the guidance in paragraph A4 does not provide sufficient clarity to the concept of "initial release" and will not be well understood by auditors. This may lead different auditors to different conclusions and thus will be a deterrent to audit quality.

ASB recommends that the IAASB consider revising paragraph 9(b) to state that initial release occurs when the audited financial statements and the auditor's report thereon for a reporting period are first made available to the group of users for whom the auditor's report is prepared, often the shareholders or those charged with governance. Additionally, the ASB suggests that the IAASB add additional guidance to paragraph A4 so that auditors have a clearer understanding as to when the initial release takes place when the auditor's report is distributed to various groups of users.

**IAASB Question 4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?**

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We believe it would be rare that a nonissuer would initially release its audited financial statements for the first time in a securities offering document. However, we agree that in situations where that might occur (for example, a securities offering that is exempt from registration under applicable securities laws), the proposed ISA should apply to such offering document.

**IAASB Question 5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:**

- (a) Do respondents believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?**
- (b) Do respondents believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?**

The ASB believes that the phrase, “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor. However, the ASB believes that the objectives of the proposed ISA (and the definition of material inconsistency) should be revised, consistent with extant ISA 720, to clearly differentiate the auditor’s responsibility with respect to other information that contradicts information contained in the audited financial statements (material inconsistency) from the auditor’s responsibility for apparent material misstatements of fact contained in the other information.

**IAASB Question 6: Do respondents agree that the definitions of terms of “inconsistency” including the concept of omissions and “a material inconsistency in the other information are appropriate?**

No, the ASB does not believe the definitions described above are appropriate.

Extant ISA 720 defines *inconsistency* as “Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.”

In contrast, paragraph 9(a) of the proposed revised ISA 720 states that “an inconsistency in the other information exists when the other information:

- (i) Contains information that is incorrect, unreasonable or inappropriate; or
- (ii) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

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An inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole."

The proposed revised ISA 720 significantly broadens the definition of *inconsistency* from that contained in extant ISA 720 and includes the concept of *misstatements of fact* from extant ISA 720. The ASB suggests that the proposed revised ISA 720 would be easier to understand and apply if the IAASB retains the definition of *inconsistency* from extant ISA 720 as well as the definition of *misstatement of fact* from extant ISA 720 and provides separate auditor responses for each. Extant ISA 720 defines *misstatement of fact* as "other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements."

With respect to the proposed response when the auditor identifies a *material misstatement of fact*, extant ISA 720 limits the auditor's response to those situations when the auditor becomes aware of an *apparent* material misstatement of fact. The ASB believes that this appropriately frames the auditor's responsibility for information that is unrelated to the matters appearing in the audited financial statements.

Additionally, part (ii) of the proposed revised definition of *inconsistency* creates an unreasonable expectation for the auditor such that the auditor would be expected to determine whether the *other information* is complete or whether any information is missing. Wording such as *incorrect*, *unreasonable*, *inappropriate*, *omits*, and *obscures* changes the auditor's responsibility from assessing the consistency of the other information with the audited financial statements to determining the completeness and accuracy of the other information. Because the auditor is not providing any assurance on the other information, the ASB believes that this creates an unreasonable and inappropriate expectation of the auditor.

**IAASB Question 7: Do respondents believe that users of auditors' reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?**

The ASB believes that the illustrative report contained in paragraph A57 of the proposed revised ISA should be modified to more clearly articulate the nature and limitations of the auditor's understanding of the entity and its environment acquired during the course of the audit. We suggest the illustrative report be revised to read as follows:

The information other than the financial statements and our report thereon included in the [specify documents containing the other information, for example, the entity's annual report for the year ended December 31, 20X1] ("Other Information") is the responsibility of management. Our responsibility is to read

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and consider, in light of our understanding of the entity and its environment obtained during the course of our audit, whether we have identified any material inconsistencies between the other information and the audited financial statements. Our understanding of the entity and its environment was obtained for the purpose of assessing the risks of material misstatement of the financial statements and not for the purpose of assessing the completeness and accuracy of the other information. Accordingly, we do not express an opinion or provide any form of assurance on the other information. However, we have not identified any material inconsistencies between the other information and the audited financial statements.

**IAASB Question 8: Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor's work with respect to the other information? In particular:**

- (a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?**
- (b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?**
- (c) Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?**

The ASB is supportive of a principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the *other information* and believes this approach is preferable to a prescriptive approach with detailed requirements.

With respect to the categories of *other information* in paragraph A37 and the guidance for the nature and extent of the work effort for each category, ASB believes that the proposed procedures are inappropriate. The paragraph implies that the auditor would obtain assurance on information on which the auditor is not required to opine or issue a review conclusion. For example, the requirements with respect to directly reconcilable financial information for the auditor to: (a) obtain a reconciliation from management, (b) agree the items in the reconciliation to the audited financial statements and (c) determine whether the calculations within the reconciliation are arithmetically accurate, is clearly an assurance procedure and would result in a significant expansion from the extant ISA 720 requirement to read and consider the other information.

**IAASB Question 9: Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?**

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The ASB believes that the examples of qualitative and quantitative information included in the Appendix in the proposed revised ISA 720 are helpful.

**IAASB Question 10: Do respondents believe it is clear in the proposed requirements what the auditor’s response should be if the auditor discovers that the auditor’s prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?**

ASB believes that it is clear in the proposed requirements what the auditor’s response should be if the auditor discovers that the auditor’s prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete.

**IAASB Question 11: With respect to reporting:**

- (a) Do respondents believe that the terminology (in particular, “read and consider,” “in light of our understanding of the entity and its environment acquired during our audit,” and “material inconsistencies”) used in the statement to be included in the auditor’s report under the proposed ISA is clear and understandable for users of the auditor’s report?**
- (b) Do respondents believe it is clear that the conclusion that states “no audit opinion or review conclusion” properly conveys that there is no assurance being expressed with respect to the other information?**

See response to IAASB Question 7.

**IAASB Question 12: Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?**

The ASB believes that the procedures performed do not afford the auditor a basis for providing assurance on the other information and therefore believes that the level of assurance expressed in the report (that is, no assurance) is appropriate.

**Other issues with respect to the proposed revised ISA 720:**

In addition to the ASB’s responses to the IAASB’s specific requests for comment, the ASB objects to the guidance in paragraph A8 of the proposed revised ISA 720 which states that documents within the scope of this ISA may be included on the entity’s website. This contrasts with the guidance in paragraph A4 of extant ISA 720, which states that other information does not encompass information contained on the entity’s website. The ASB believes that the inclusion of information on websites will lead to an expansion of the expectation gap that the IAASB is attempting to mitigate.

The ASB also questions why paragraph 14 of the proposed revised ISA 720 does not provide the auditor with the option of withholding the auditor’s report when the auditor

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identifies a material inconsistency in *other information* prior to the date of the auditor's report. Such option is permitted in accordance with extant ISA 720.

Finally, the ASB believes that the proposed ISA would be strengthened if the auditor was required to obtain a written representation from management that it acknowledges its responsibility for the other information.

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

The ASB agrees that an appropriate effective date would be 12-15 months after issuance of the final standard with early application not permitted.

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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](mailto:mglynn@aicpa.org).

Respectfully submitted,

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

/s/ Bruce Webb  
Chair, Auditing Standards Board