



Tel: +1 212 885 8000
Fax: +1 212 885 8036
@: bdo@bdointernational.com
www.bdointernational.com

BDO International Limited
Contact:
100 Park Avenue
New York, NY 10017-5001
United States of America

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

Re: Request for Public Comment: Exposure Draft on Proposed International Standard on Auditing (ISA) 720 (Revised), the Auditor's Responsibilities Relating to Other Information

Dear Mr. Gunn,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or Board) April 2014 Exposure Draft on the proposed International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information* (the 'Re-proposed Standard'). Overall, we believe the revisions made to the prior proposal, including those relating to the definition of the term 'inconsistency' and focusing the performance of limited procedures on potential material inconsistencies between the other information and the financial statements, have greatly improved the clarity of the Re-proposed Standard. While we are supportive of many of the revisions, we believe there are certain areas where the Re-proposed Standard could be enhanced. Our comments and suggestions are provided below for your consideration.

Overall Comments

Reports or Documents Issued Separately

The Re-proposed Standard explains in paragraph A3 that reports that are prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective when issued separately are not typically part of the combination of documents that comprise an annual report and, therefore, are not considered other information. We believe that additional guidance, in particular as it relates to electronic communications, would be helpful in providing clarity about the meaning of the phrase 'issued separately.' For example, if a sustainability report is combined with the annual report in an electronic communication, it is unclear whether such a report would be considered 'issued separately' and, therefore, outside the scope of the Re-proposed Standard since it was, in fact, combined with the annual report communication.

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Definition of Misstatement of the Other Information

We appreciate the changes made to the definition of a ‘misstatement of the other information’ within the Re-proposed Standard. However, we question whether it is appropriate to include the term ‘material’ within that definition since this would appear to provide a definition of a ‘material misstatement’ within the auditing literature with respect to other information. We believe that evaluation of a material misstatement is primarily management’s responsibility. Accordingly, we suggest removing this statement from the definition of a ‘misstatement of the other information’. Alternatively, we suggest providing application guidance relating to how the auditor would evaluate materiality in the context of other information.

Additionally, we believe the phrase ‘necessary for a proper understanding of a matter’ and the word ‘obscure’ are highly subjective and subject to varying interpretations and inconsistent application. Furthermore, requiring the auditor to identify omissions in the other information may impose a responsibility on the auditor to identify omissions that relate to the requirements for the presentation of other information which may imply that the auditor has a responsibility for its completeness that goes beyond becoming aware of an omission. Therefore, we suggest the parenthetical phrase that includes these terms be excluded from the definition.

Consistency of Procedures Performed

We note that paragraphs 14 and 15 of the Re-proposed Standard require the auditor to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the auditor’s knowledge obtained during the course of the audit. With respect to material inconsistencies between the other information and the financial statements, the auditor is required to perform limited procedures, and those procedures are provided as application guidance. With respect to material inconsistencies between the other information and the auditor’s knowledge obtained during the course of the audit, the Re-proposed Standard explains within the application guidance that the auditor, using professional judgment, determines the extent to which to make reference to documentation, direct inquiries to members of the engagement team or component auditor, or decide to rely on recollection alone. While we are supportive of the flexibility provided for in the Re-proposed Standard in both instances and recognize the importance of the use of professional judgment in making decisions about the nature and extent of procedures to be applied, we believe that there may be considerable variations in practice. Accordingly, we encourage the IAASB to closely monitor the implementation of this standard to evaluate the consistency with which the Re-proposed Standard is interpreted and applied.

The following are our responses to the request for specific and general comments posed in the Explanatory Memorandum.

Specific Comments

- 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.**

Overall, we are supportive of the direction of the Re-proposed Standard and believe it is an improvement over the prior proposal. Our observations and comments regarding the scope of the standard and the guidance relating to the consistency of the procedures performed are set out above in our Overall Comments section.

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

As noted above, while we support the flexibility provided for within the Re-proposed Standard relating to the procedures to be performed in reading and considering whether a material inconsistency exists between the other information and the financial statements or the auditor's knowledge obtained during the course of the audit, we are concerned that this may lead to inconsistent interpretation and application. For this reason, we believe it will be important for the IAASB to monitor the implementation of this standard across jurisdictions and firms to assess the consistency with which the standard is applied.

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.

Overall, we are supportive of the auditor reporting requirements provided for in the Re-proposed Standard. In particular, we are supportive of including the identification of documents obtained by the auditor prior to the date of the auditor's report.

4. Whether you agree with the IAASB's conclusions 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 conclusion to not require identification of other information not received by the date of the auditor's report since in most cases users will be able to determine which documents have not been considered by the auditor given the focus in the Re-proposed Standard on annual reports as the basis for the definition of other information.

We support the IAASB's decision to not require subsequent reporting on the other information obtained after the date of the auditor's report and believe the guidance provided within the Re-proposed Standard for responding when a material misstatement exists in the other information or in the financial statements is appropriate.

General Comments

- (a) We have no comment on the question posed to preparers.
- (b) Developing Nations - In consultation with our member firms that practice in developing nations we do not foresee any difficulties in applying it in such nations.
- (c) We are not aware of any translation issues relating to the Re-proposed Standard.

With respect to the effective date, we believe that the IAASB's approach to align the effective date of this standard with the IAASB's Auditor Reporting project, to the extent possible, is appropriate. Accordingly, we believe an effective date of 12-15 months after issuance of the standard is reasonable.

We appreciate the opportunity to comment on the Re-proposed Standard and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting