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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:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ appreciates the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) on its *Exposure Draft on Proposed International Standard on Auditing (ISA) 720 (Revised), The Auditor's Responsibilities Relating to Other Information* (the 'Re-Proposal'). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ is supportive of the IAASB's efforts to enhance and clarify the auditor's responsibilities relating to other information and has previously shared views on this topic in comment letters to both the IAASB and the Public Company Accounting Oversight Board (PCAOB).¹ We commend the IAASB's consideration of other efforts in this area, in particular those of the PCAOB, in developing the Re-Proposal, and encourage the IAASB to continue to work with the PCAOB to minimize differences amongst the final standards.

We also commend the IAASB for considering the results of outreach conducted and the comment letters received from the CAQ and others, in response to the IAASB's March 2013 *Exposure Draft on ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (the 'Original Proposal') in

¹ See CAQ comment letters to the IAASB dated March 14, 2013 ([link](#)), October 8, 2012 ([link](#)) and September 15, 2011 ([link](#)) and the PCAOB dated December 11, 2013 ([link](#)), September 30, 2011 ([link](#)) and June 28, 2011 ([link](#)).

advancing the Re-Proposal, including the consideration of many of the comments made in our last letter. For instance:

- Revising the definition of ‘other information’ to focus on financial and non-financial information included in the annual report and removing from the scope other information that ‘accompanies the audited financial statements,’ if such information has the primary purpose of providing commentary to enhance users understanding of the audited financial statements; and
- Reconsidering the definition of ‘inconsistency’ from the Original Proposal and allowing the term to take its ordinary dictionary meaning of, ‘an element not being compatible with another fact or claim’ or ‘not in keeping with.’²

We are also supportive of the IAASB focusing the limited procedures discussed in paragraph 15 of the Re-Proposal to material inconsistencies between the other information and the financial statements (i.e., paragraph 14(a) of the Re-Proposal).

In addition to these improvements made by the IAASB, we believe there are certain provisions within the Re-Proposal that could be further enhanced to provide users with a better understanding of the auditor’s responsibilities with respect to other information. Our suggestions are discussed more fully below.

Definition of ‘Misstatement of the Other Information’

The Re-Proposal defines a ‘misstatement of the other information’ as other information that is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter).³ As described in the Re-Proposal, the IAASB believes this term better encapsulates both factual and qualitative misstatements than the terms in the Extant ISA 720 (which uses the term ‘misstatement of fact’) or in the Original Proposal (which used the term ‘inconsistency in the other information’).⁴ The Re-Proposal also states that ‘misstatements of the other information’ are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users.⁵

Materiality and Influencing the Economic Decisions of Users

We appreciate the advancements made within the Re-Proposal in defining a ‘misstatement of the other information.’ However, as the consideration of a ‘material’ misstatement is first the responsibility of the issuer, and is not defined in the context of the financial statements (i.e., material misstatement of the financial statements) in the auditing literature, we question whether it is appropriate to include a statement on materiality within the definition of a ‘misstatement of the other information’ (i.e., the second sentence of the definition). We believe this could inadvertently provide a definition of a ‘material’ misstatement within the auditing literature for other information. Therefore, we encourage the IAASB to consider removing this statement from the definition of a ‘misstatement of the other information,’ and as an alternative, provide guidance relating to how the auditor would evaluate whether a misstatement of the other information is considered material. We believe this is more consistent with the construct of paragraphs 2 and 3 of ISA 320, *Materiality in Planning and Performing an Audit*, which does not define materiality, but rather acknowledges that financial reporting frameworks often discuss materiality in the context of the preparation and presentation of the financial statements.

² Paragraph 26, Explanatory Memorandum, the Re-Proposal.

³ Paragraph 12(b), the Re-Proposal.

⁴ Paragraph 28, Explanatory Memorandum, the Re-Proposal.

⁵ Paragraph 12(b), the Re-Proposal.

Further, we acknowledge that the ‘economic decisions of users’ is one consideration of materiality in the context of the financial statements. However, in the context of the auditor’s performance responsibilities with respect to other information, we believe directly linking materiality to users’ economic decisions (recognizing that there is a wide variety of other information that may be included in the annual report, and such other information is only part of the overall information available to users) could provide a level of complexity that may be challenging to apply consistently in practice, as influence over economic decisions could vary between users. Adding to this complexity, and potential inconsistency, is the lack of benchmarks or guidance available to assist auditors in considering what is material for the other information, particularly as it relates to non-financial information. For instance, it is unclear how linking materiality to the economic decisions of users would apply to a non-financial report that is included in the annual report, but does not include information that would influence the economic decisions of users. Therefore, we believe the profession would benefit from clarification as to how such linkage would apply in practice, particularly as it relates to non-financial other information.

Other Related Matters

The phrase ‘necessary for a proper understanding of a matter’ and the term ‘obscure’ are judgmental and could be subject to varying interpretations by auditors, financial statement users, and others. We encourage the IAASB to consider whether it is more appropriate to exclude these phrases from the definition to allow for more consistent application in practice. Additionally, requiring the auditor to consider information that is ‘omitted’ may impose a responsibility on the auditor to identify omissions that relate to the requirements for presenting other information, which may suggest the auditor has a responsibility around the completeness of the other information. Therefore, we recommend the IAASB consider removing the term ‘omitted’ from the definition or clarify that the auditor’s responsibility in this area is solely based upon the auditor becoming aware of something being omitted and has no responsibility around the completeness of the other information.

Performance Responsibilities

As part of the auditor’s performance responsibilities with respect to other information not related to the financial statements under the Re-Proposal (i.e., not subject to paragraph 14(a) of the Re-Proposal), the auditor is required to remain alert for other indications that the other information appears to be materially misstated.⁶ We understand this requirement is intended to recognize (and assist in) the auditor’s ethical obligation not to be knowingly associated with other information that is otherwise misleading;⁷ and also recognize, in reading and considering the other information, the auditor may have relevant knowledge that goes beyond the knowledge obtained during the course of the audit.⁸ However, it is unclear from the Re-Proposal how the auditor’s obligation to remain alert differs from the auditor’s obligation to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit, particularly as it relates to the auditor’s obligation to demonstrate performance and document these responsibilities.

In complying with these performance responsibilities under the Re-Proposal, the auditor would likely consider all information that is known to the auditor, as being based upon the knowledge gained during the audit and whether this information impacted the audit. However, in distinguishing between the requirements in paragraph 14(b) and 14(c) within the Re-Proposal, it is unclear whether the auditor is expected to differentiate these responsibilities, which could challenge the auditor’s ability to demonstrate what information is based upon knowledge gained during the audit, as compared to information the auditor is aware of outside of the audit. We believe other information not related to the financial statements should be considered in a consistent manner, based upon the auditor being alert to material misstatements of the other information in connection with the auditor’s knowledge obtained during the course of the audit. Therefore,

⁶ Paragraph 14(c), the Re-Proposal.

⁷ See, Paragraph 110.2 of the International Ethics Standards Board for Accountants, Code of Ethics for Professional Accountants.

⁸ Paragraph 25, Explanatory Memorandum, the Re-Proposal.

we encourage the IAASB to consider combining paragraphs 14(b) and 14(c) into one performance requirement. However, if the IAASB continues to believe it is appropriate to segregate these responsibilities, we believe the profession would benefit from clarification as to how these responsibilities are intended to differ, particularly as it relates to auditor's obligation to demonstrate performance.

Reporting Responsibilities

Under the Re-Proposal, the auditor's report is required to include the following:⁹

- i. Identification of the other information obtained by the auditor prior to the date of the auditor's report;
- ii. A statement that the auditor has not audited the other information and accordingly does not express an audit opinion or any form of assurance conclusion thereon;
- iii. A description of the auditor's responsibilities with respect to the other information; and
- iv. A statement:
 1. If the auditor has not determined that there is an uncorrected material misstatement of the other information, that the auditor has nothing to report; or
 2. If the auditor has determined that there is an uncorrected material misstatement of the other information that describes the material misstatement.

The CAQ continues to support additional transparency in the auditor's report with respect to the auditor's responsibilities related to other information, and specifically supports, as of the date of the auditor's report, the following:

- i. Describing the auditor's responsibilities with respect to the other information;
- ii. Identifying the other information read by the auditor; and
- iii. Clarifying that the auditor did not perform an audit of the other information, in order to mitigate the risk that financial statement users may inappropriately infer that the auditor has a greater responsibility with respect to OI than required under the Extant ISA 720.¹⁰

However, the auditor providing a statement that if he or she has (or has not) "determined" that the other information is materially misstated, coupled with a statement that the auditor has nothing to report when a material misstatement is not identified, may imply a level of assurance that is inconsistent with the auditor's responsibilities under the Re-Proposal, despite the auditor making an explicit statement in the auditor's report that he or she did not audit the other information. As opposed to requiring the auditor's report to contain these statements, we recommend that it be revised to describe material misstatements only in instances where an uncorrected material misstatement has been identified. For instance, the auditor's report could include:

- i. A statement that in the event the auditor becomes aware, based on the procedures performed as of the date of the auditor's report, that the other information contains an uncorrected material misstatement, the auditor is required to describe the misstatement in the auditor's report; and
- ii. In situations where the auditor has become aware of an uncorrected material misstatement of the other information, a description of the material misstatement.

We believe this approach would clearly communicate the auditor's responsibilities regarding other information, and whether the auditor was aware of an uncorrected material misstatement with the other information, while mitigating any unforeseen notion that the auditor is providing a level of assurance that is inconsistent with their responsibilities.

⁹ Paragraph 21, the Re-Proposal.

¹⁰ See ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.


Further, although the Re-Proposal requires the auditor to include a statement in the auditor's report that he or she has not audited the other information, we believe it is important to also clarify in the auditor's report that the auditor responsibilities for other information does not constitute a review.

Reports Excluded from Other Information

The Re-Proposal includes examples of reports that, when issued separately, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and are therefore, not considered within the scope of other information.¹¹ However, it is unclear as to what 'issued separately' entails and whether this refers to the 'initial issuance' of the document. For example, would a separately issued sustainability report that is combined in an electronic communication with the annual report (as defined in the Re-Proposal), be considered within the scope of other information? We believe auditors would benefit from the IAASB providing clarification in this area, including clarifying whether documents that are clearly distinguishable from the annual report are considered to be issued separately in the context of the Re-Proposal and are outside the scope of the auditor's performance responsibility to other information.

The CAQ continues to support further transparency in the audit report regarding the auditor's responsibility for other information and commends the IAASB for advancements made in this important area. The CAQ appreciates the opportunity to comment on the Re-Proposal and welcomes the opportunity to respond to any questions regarding the views expressed in this letter.

Sincerely,



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Executive Director
Center for Audit Quality

cc:

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¹¹ Paragraph A3, Application and Other Explanatory Material, the Re-Proposal.