



March 14, 2013

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

Dear Mr. Gunn:

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide our comments on the Exposure Draft of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (the "proposed standard"), which has been developed by the International Auditing and Assurance Standards Board ("IAASB" or the "Board").

Consistent with our response to the IAASB's Invitation to Comment, *Improving the Auditor's Report*, it is clear that the information sought by users of financial information has evolved over time. As such, reporting to users by auditors related to both the audited financial statements and other information in documents containing or accompanying audited financial statements also needs to evolve.

We believe that real, meaningful change that will reinvigorate the relevance of the audit and deliver significantly enhanced value to users of financial information will require the Board to collaborate with others, including accounting standard setters (e.g., the International Accounting Standards Board [IASB], the Financial Accounting Standards Board [FASB]), regulators (e.g., the International Organization of Securities Commissions [IOSCO]), and others (e.g., investors, preparers). By collaborating with others, fundamental changes that better serve the capital markets and users of financial information in general could be achieved through, among other things:

- Enhanced or revised reporting of financial information to users.
- Enabling auditors to meaningfully progress the assurance they provide related to financial information without an imbalance in the risk assumed by the auditor relative to the assurance provided by the auditor.
- Enhanced or revised assurance related to both the audited financial statements and other information in documents containing or accompanying audited financial statements.

Having said that, we recognize that the proposed standard must be limited to presenting requirements and application material without consideration of fundamental changes to financial reporting frameworks, associated regulation, or liability regimes. As such, our comments that follow are focused on the proposed standard in the light of the current environment.

In our evaluation of the proposed standard, we considered whether the proposed standard would, consistent with the stated beliefs of the Board, achieve the following intended outcomes:

- Improve audit quality by bringing greater consistency regarding the auditor's consideration of the diverse range of information that accompanies audited financial statements and falls within the scope of the proposed standard;
- Increase the value of the audit, without changing its scope, in a cost beneficial manner, through enhancing the auditor's responsibility with respect to the other information; and
- Narrow the expectations gap through requiring auditors to articulate in their reports their responsibilities under the proposed standard, and the outcome of their work relative to the other information.

We support the Board in its efforts in developing the proposed standard, and in particular, the Board's aim to clarify the auditor's role with respect to other information and bring transparency to the work performed by the auditor. However, we have some recommendations regarding the proposed standard and its ability to achieve the intended outcomes described above related mainly to the following aspects of the proposed standard:

- *The revised definitions of "inconsistency" and "a material inconsistency."* The revised definitions of "inconsistency" and "a material inconsistency" imply that the auditor shall assess the completeness of other information. Depending on the nature of the other information, the auditor's understanding of it and what it might take for it to be considered complete, the auditor may have limited access to information necessary to assess the completeness of other information based on the proposed scope of the standard;
- *The timing of the auditor's procedures relating to other information and when the responsibility ends.* The proposed standard implies an open-ended responsibility on the auditor beyond the date of the auditor's report with regards to other information;
- *The nature and extent of information or documents that fall within the scope of the proposed standard and related jurisdictional concerns.* The proposed standard expands significantly the scope of other information that the auditor is required to "read and consider." Due to the ambiguous nature of the word "consider" and the different jurisdictional requirements that exist, the application of the proposed standard will likely be very inconsistent within jurisdictions and from one jurisdiction to another; and
- *The lack of a management framework that sets out management's responsibilities with respect to other information.* We suggest that the Board consider collaborating specifically with accounting standard setters (e.g., IASB, FASB) in order for management's responsibilities to be more clearly defined with respect to other information that would be within the scope of the proposed standard.

We provide more detail regarding these recommendations in our responses to the Questions below.

We have separated our comments into two sections:

- **Response to Requests for Specific Comments** – This provides comments to the specific questions posed by the IAASB in the explanatory memo.

- **Comments on Conforming Amendments to other standards** – This provides recommendations on other conforming amendments based on the proposed standard.

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

1. Do you agree that there is a need to strengthen the auditor’s responsibilities with respect to other information? In particular do you believe that extending the auditor’s responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?

We are supportive of the need to clarify the auditor’s responsibilities with respect to other information through increased transparency in the auditor’s report. However, proposals in the standard that we believe the Board should deliberate further before finalizing the proposed standard include the following:

- The scope of procedures to be performed is not described with sufficient clarity, potentially leading to the costs of implementing the standard exceeding the benefits. Please refer to our response to Question 8(c) for further discussion.
- It is unclear what the auditor’s responsibilities are after the date of the auditor’s report. Please refer to our response to Question 3 for further discussion on this topic.
- Certain stakeholder groups could mistakenly believe the auditor is providing limited or reasonable assurance with respect to the other information. If stakeholder demand is such that management or stakeholders wish to obtain assurance directly on the other information, an assurance engagement can separately be performed by the auditor. Please refer to Question 11(b) for further discussion.

2. Do you 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?

We agree that the proposed standard should include within its scope, documents that accompany the audited financial statements and the auditor’s report thereon *which have the primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process*. If one jurisdiction requires information to be published within a document containing the financial statements, while another jurisdiction requires the same information (that has a primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process) to be published in a document accompanying the financial statements, consistency will be achieved by the requirements of the proposed standard, as both documents will fall within its scope. We believe this is a significant improvement from the current standard.

However due to the expanded scope of the definition of other information, and the guidance in paragraph A13 that potentially scopes in a much broader population of other information (including information that does “not have the primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements or financial reporting

process”), we believe that other inconsistencies may arise in terms of auditor and user understanding and application by the auditor in practice.

Paragraph A13 lists examples of accompanying documents that do not have a “primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements or the financial reporting process” and accordingly would be outside the scope of the proposed standard. The last sentence of this same paragraph, however, states that if any information of this nature (e.g., reports relating to sustainability or product responsibility) is contained in a document that is within the scope of the proposed standard, such information would be subject to the requirements of the proposed standard, including for the auditor to “read and consider it” and identify material inconsistencies with the auditor’s understanding of the entity and its environment. The result of this guidance may be that, depending on jurisdictional requirements and practices, the same type of other information may or may not fall into the scope of the proposed standard. Additionally, this may have the effect of including within the scope of the proposed standard, other information that is not related to the financial statements, or only tangentially related, in which case it would be very unclear as to what is expected from, and what might be the expected outcome of, having the auditor “reading and considering” it. We believe the proposed standard as drafted could therefore lead to significant confusion of users as to what documents are included within the scope of the auditor’s responsibilities, and inconsistency in practice.

To address these issues, we believe that other information should only be included in the scope of the proposed standard, if such information has the primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process, regardless of whether it is included within a document that contains the audited financial statements and the auditor’s report thereon or in a document accompanying the audited financial statements and the auditor’s report thereon.

In order to implement the above recommendation, we believe the concept of “primary purpose” needs to be very clear and understandable, such that it facilitates consistency in understanding and application. We believe that the concept in the proposed standard should include an explanation as to how the auditor would be expected to distinguish between other information that has a primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process and other information that does not have this primary purpose.

We, therefore, recommend the Board define this concept more clearly. For example, it would improve the clarity of the proposed standard if the Board would clarify that the documents listed in paragraph A12 are documents that meet the definition (with the exception of “operating reviews” referred to in the first bullet as we question whether such reports really have the primary purpose of enhancing the users’ understanding of the audited financial statements or financial reporting process). We also believe that the Board should revise paragraph A13 by making it clear that the documents listed therein are never considered to have a primary purpose of enhancing the users’ understanding; and, therefore, to make it clear that other information of such nature would never be within the scope of the proposed standard, regardless of whether it is contained within a document that includes the audited financial statements or is contained in a document that accompanies the audited financial statements.

In order to avoid any unnecessary uncertainty about what other information is in scope or out of scope, we suggest it should be a requirement in the proposed standard that the auditor's responsibilities should include agreeing with management and those charged with governance on a timely basis, preferably in the planning phase of the audit:

- The other information that will have the primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process, that will be included in documents containing the audited financial statements or in documents that will accompany the audited financial statements; and
- A timeline for when this information will be provided by management to the auditor (which should in all cases be prior to the date of the auditor's report, in order to allow the auditor to fulfill his or her responsibilities in terms of the proposed standard).

In addition, we recommend the Board consider revising ISA 580, *Written Representations*, to include specific representations from management, and where appropriate, those charged with governance about the other information that will be included in documents containing the audited financial statements or in documents that will accompany the audited financial statements, and the completeness and accuracy of such information. Note that this recommendation will also assist in alleviating the potential challenges regarding the concept of "initial release" as raised in our response to Question 3.

With regards to other information published on an entity's website, we acknowledge the fact that, increasingly, other information is published on websites and that this is normal practice in many jurisdictions. We support extending the scope of the proposed standard to include documents that accompany the financial statements in principle, but the practical issues surrounding the publishing of other information on a website present some significant challenges to the auditor in fulfilling the auditor's responsibilities in terms of the proposed standard.

We suggest that these challenges be considered and addressed by the Board in order to clarify the auditor's responsibilities with regards to other information published on websites.

Some of these practical issues include:

- The implication on the auditor's responsibilities if management regularly updates the other information after the auditor has read and considered that other information. The versions of information on the website that has been read and considered by the auditor would likely need to be differentiated from updated versions of the same information;
- How to portray to the users at what point in time the auditor has read and considered the other information and what version of the other information (if it is updated by the entity) the auditor has read and considered. Our suggestion is for an entity to have a page on their website labeled "Other information read and considered by the auditor" and management could indicate on this page at what point in time the auditor has read and considered that other information;
- The assessment by the auditor of the internal control surrounding an entity's website such as access controls to the information, before the auditor is associated with any "other information" on the website. It would likely be necessary for the auditor or another qualified practitioner to perform an examination engagement of the related controls;

- We also draw the Board's attention to paragraph A8 where it states as an example that where a document is only made available on the entity's website, that the auditor's procedures under the proposed standard would be performed on a version of the document obtained from the entity. We believe that the intention of this paragraph was to highlight the fact that it is only documents that have a primary purpose of providing commentary to enhance the user's understanding of the audited financial statements or the financial reporting process that are within the scope of the proposed standard, whether this is made available in printed form or electronically. However, we believe that this could be regarded by the user as an open ended responsibility on the auditor and potentially widen the expectation gap on what the auditor's responsibilities are relating to information on an entity's website. We, therefore, suggest that the Board consider clarifying the wording in this paragraph to reflect the intention thereof.

Lastly, in paragraph 3 of the proposed standard, it states that the proposed standard does not apply to preliminary announcements of financial information. We recommend the Board consider defining the concept of "preliminary announcements," as this phrase might have a different meaning in different jurisdictions; and, accordingly, it may not necessarily be clear as to the reasons for their exclusion from the scope of the proposed standard. In particular, paragraph A5 distinguishes between a press release issued in connection with the initial release and a press release issued in connection with a preliminary announcement. In some jurisdictions, these could be the same press release.

3. Do you 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?

While we understand the intent of the Board in the drafting of the definition of initial release, we do not believe that the concept of initial release is clear and understandable and therefore it could likely be inconsistently applied across different jurisdictions where there are different laws, regulations and practices.

In line with our suggestions in response to Question 2, we believe the auditor's responsibilities for other information, outside of the existing responsibilities in ISA 560, *Subsequent Events*, should end as of the date of the auditor's report. The concept of initial release would then be irrelevant.

We believe reading and considering other information after the date of the auditor's report would be over and above what is expected of the auditor after the date of the auditor's report for the financial statement audit in terms of ISA 560. We draw the Board's attention to paragraph A27 where it states that the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report are addressed in paragraphs 10 - 17 of ISA 560 and paragraph A55 of the proposed standard. Paragraphs 10 - 17 of ISA 560 states that the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. Paragraph A55 of the proposed standard, however, states that "Reading and considering the other information and discussion with management **after** the date of the auditor's report...."

We believe that auditors might interpret these paragraphs as contradicting each other and, therefore, we recommend the Board provide clarity in the proposed standard that the auditor has no responsibility relating to other information after the date of the auditor's report.

We believe the concept of initial release could be challenging due to the following potential issues, amongst others:

- How the auditor would meet the documentation requirements of the proposed standard and the audit file assembly requirements of ISA 230, *Audit Documentation*, if the auditor was reading and considering other information after the audit report date; and
- In some jurisdictions, the auditor's legal appointment ends on the issuance of the audit report and, as such, it may be impracticable to require the auditor to read and consider the other information after this date.

To make the auditor's responsibility clear to the users of the audited financial statements and to specify exactly what other information the auditor has read and considered, we believe it is necessary, and that there should be a requirement in the proposed standard, for the auditor to identify in the auditor's report, not only what other documents the auditor has read but also specifically what other information in the document containing the audited financial statements or in documents accompanying the audited financial statements, the auditor has read and considered.

Based on the above, we suggest the following changes to the proposed standard:

- Removing the wording "***Where the auditor has obtained the other information prior to the date of the auditor's report***" from the first sentence of paragraph 16 of the proposed standard;
- Amending bullet (b) in Paragraph 16 of the proposed standard to read: "***(b) Identification of the specific documents that contain the other information in the document containing the audited financial statements or in documents accompanying the audited financial statements that the auditor has read and considered as part of the audit of the financial statements***"; and
- Deleting paragraph 14(b) from the proposed standard, as it will no longer be applicable.

These changes will place the responsibility on management to ensure that all relevant other information is prepared and supplied to the auditor before the date of the auditor's report. We understand, however, that the setting of this responsibility would not be within the mandate of the IAASB. As such, we believe that it will likely be important for the Board to collaborate with others, including accounting standard setters (e.g., IASB, FASB), regulators (e.g., IOSCO), and others (e.g., investors, preparers), as such collaboration will help to drive more consistency across jurisdictions.

4. Do you 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?

We believe that securities offering documents should be excluded altogether from the scope of the proposed standard.

In certain jurisdictions there are already requirements on the auditor with regards to securities offering documents: therefore, including these documents within the scope of the proposed standard would be duplicating or conflicting with procedures the auditor is already required to perform.

In addition, if there is a significant time delay between the initial release of the audited financial statements and the issuance of the securities offering document, the securities offering document would likely include information that relates to the period subsequent to the date of the auditor's report and therefore could appear to contain material inconsistencies as defined by the proposed standard.

The requirements and guidance in the proposed standard may be useful to adapt as necessary, should an auditor in a certain jurisdiction be requested to perform some level of procedures on securities offering documents and there is no local standard or framework in use. To address this circumstance, we propose including the following wording from extant ISA 720, paragraph 2 in the proposed standard to make it clear that this potential use of the proposed standard by an auditor is not precluded:

“This ISA may also be applied and adapted as necessary in the circumstances to other documents containing financial statements, such as securities offering documents.”

5. Do you consider that the objectives of the proposed ISA are appropriate and clear? In particular:

(a) Do you 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?

We believe that the proposed requirements and guidance are helpful in enabling the auditor to understand what it means to read and consider other information based on the auditor’s understanding of the entity and its environment acquired during the course of the audit.

However, as noted in our responses to Questions 2 and 3, we are concerned about the ability of the auditor to apply that acquired knowledge to other information that is not information that has “the primary purpose of providing commentary to enhance the user’s understanding of the audited financial statements or the financial reporting process.” The more unrelated the other information is to the audited financial statements, we believe the more difficult it will become for the auditor to be able to effectively and consistently “consider” that other information “in light

of” the auditor’s understanding of the entity and its environment which was obtained in the context of the financial statement audit.

In addition, we don’t believe that the level of involvement required from the auditor with regards to forward-looking information, as described in paragraph A29, is sufficiently clear from the proposed standard or the examples in the Appendix to the proposed standard. Please refer to our response to Question 9 for further discussion.

We believe that if the scope of other information covered by the proposed standard is clarified as per our responses to Questions 2 and 3, then the requirement to read and consider that other information in light of or based on the auditor’s understanding of the entity and its environment will be easier to understand and implement.

Comments by paragraph related to this question:

1) Paragraph 8

- We recommend replacing “in light of” with “based on” as that wording is more consistent with the language in other ISAs. We recommend the same change throughout the proposed standard.
- We recommend the following change to paragraph 8(b) to acknowledge that there are other reporting obligations in other ISAs that may be impacted by this standard, such as ISA 560, *Subsequent Events*, and ISA 700, *Forming An Opinion And Reporting On Financial Statements*:
“Report in accordance with *the ISAs*”.

2) Paragraph A31

In order to enhance further understanding, we suggest replacing the word “and” with “or” between (a) and (b) of paragraph A31, as both these conditions won’t necessarily always be present. This would also make paragraph A31 consistent with paragraph 2 of the proposed standard.

3) Paragraph A32

In addition, we also suggest that the wording of the second sentence of paragraph A32 is enhanced as follows:

“In meeting the requirements of this ISA, the auditor is not required to seek to enhance the auditor’s understanding of the entity and its environment beyond that required for purposes of the audit, *and specifically, as set forth in ISA 315, Identifying And Assessing The Risks Of Material Misstatement Through Understanding The Entity And Its Environment.*”

(b) Do you believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?

We believe that extant ISA720 clearly describes an inconsistency as other information that contradicts information contained in the audited financial statements. In the proposed standard, the concept of a material inconsistency relating to other information is expanded significantly to encompass situations when the other information is inconsistent with either the audited financial statements *or* the auditor's understanding of the entity and its environment acquired during the course of the audit. This is, however, only addressed in paragraph 2 (Scope of the ISA) and in the Application Material in paragraph A31, and not in the definition of inconsistency or in the requirement to "read and consider" the other information.

In addition to the changes that we recommend to the definition of inconsistency (see our response to Question 6), we also propose that the Board consider including the following wording from paragraph A31 to enhance paragraph 11 of the proposed standard (Reading and Considering the Other Information) as follows:

- "The auditor shall read and consider the other information ~~in light of~~ **based on** the auditor's understanding of the entity and its environment acquired during the course of the audit. ***This involves being alert to information that may be inconsistent with:***

(a) The audited financial statements; or

(b) The auditor's understanding of the entity and its environment acquired during the course of the audit as set forth in ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

In addition, we suggest the Board includes a paragraph in the Application Material to clearly describe what the word "consider" means in the context of this ISA as opposed to in other ISAs. In the clarification of the other ISAs, the word "consider" was used in very limited circumstances, given the difficulty of determining the appropriate auditor action. As used here, it seems equally difficult to determine what action is expected of the auditor when the auditor "considers" the other information which may result in multiple interpretations of the meaning, creating further inconsistency in understanding and application.

6. Do you agree that the definitions of terms of "inconsistency" including the concept of omissions and "a material inconsistency" in the other information are appropriate?

We suggest modifying the definition of "inconsistency" as follows:

"Inconsistency in the other information – An inconsistency in the other information exists when the other information contains information that is incorrect, relative to the audited financial statements or the auditor's understanding of the entity and its environment acquired during the course of the audit."

As currently proposed, we do not believe the definitions of the terms "inconsistency" and "a material inconsistency" in the other information are appropriate, specifically with respect to the following aspects of these definitions:

- The use of the words “unreasonable” and “inappropriate” in the definition of “inconsistency” implies that the auditor is providing assurance on the other information, which we do not believe is the intention;
- In both proposed definitions, it is unclear what the inconsistency is between, and we therefore recommend the Board to clarify what the inconsistency is between;
- Part (ii) of the definition of “inconsistency” requires the auditor to determine whether the other information is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information. We believe this is implying that it is the auditor’s responsibility to determine if the other information is complete. Depending on the nature of the other information, the auditor’s understanding of it and what it might take for it to be considered complete, the auditor may have limited access to information necessary to assess the completeness of other information based on the proposed scope of the standard. We therefore don’t believe the auditor should have a responsibility to determine if the other information is complete. We also don’t believe that the auditor should have a responsibility for determining whether the other information obscures information necessary to understand the matter being addressed. We therefore suggest that the Board remove part (ii) of the definition; and
- With regards to the definition of “material inconsistency,” we recommend the Board clarify the meaning of materiality in the context of the proposed standard and whether materiality is intended to be the same as that used for purposes of the financial statement audit. Based on the last sentence of paragraph 9(a) it appears that it is intended for a different materiality threshold to be applied in considering whether an inconsistency in the other information is material, i.e., in that it is to be considered in light of the audited financial statements and the other information taken as a whole. Given that the auditor is engaged to audit the financial statements and not the other information, it may not be appropriate for the auditor to determine a level of materiality based on the audited financial statements and the other information as a whole. It is also likely that this will result in confusion for auditors and, therefore, will not be consistently applied. In addition to clarifying the meaning of materiality in the context of the proposed standard, we also recommend the Board consider including guidance in the Application Material on how to apply the concept of materiality to qualitative other information.

7. Do you 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?

We believe that users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in the *revised* definition, as we have proposed in our response to Question 6 above. We believe, however, that for the users to understand that this inconsistency was identified in the process of reading and considering the other information based on the auditor’s understanding of the entity and its environment acquired during the course of the audit, the auditor’s reporting requirements should be enhanced in paragraph 16(c) of the proposed standard as follows:

“A statement addressing whether, in the process of reading and considering the other information *based on the auditor’s understanding of the entity and its environment acquired during the course of the audit*, the auditor has identified material inconsistencies in the other information *relative to such understanding or the audited financial statements*, and, if so, a statement describing them.”

8. Do you 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 you 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?

Yes, we support the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information, especially given the diversity in jurisdictional approaches to the types of other information and the manner in which it is communicated to the various stakeholders.

(b) Do you 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?

Yes, we believe the categories of other information in paragraph A37 are appropriate. We agree that the guidance for the nature of each category is appropriate. Please refer to our comments to Question 8(c) for further discussion on the work effort.

We also draw the Board’s attention to the wording in paragraph A43 which states: “Considering significant items within the analysis in light of the auditor’s understanding of the entity and its environment *as reflected in the audit documentation*.” Further on in this paragraph, the same wording is used, yet these words are not used elsewhere in the proposed standard. We believe that this wording may be potentially misleading and cause auditors to believe they only need to address other information if it is documented as part of their understanding of the entity and its environment in the audit documentation. As a practical matter, the auditor’s understanding of the entity and its environment will likely be broader than what is documented in the working papers. We, therefore, believe that the words “*as reflected in the audit documentation*” should be removed from the proposed standard.

Discharging the responsibilities of the proposed standard will be challenging in the context of a group audit, particularly a large group where a number of auditors are involved. The number of auditors involved in “reading and considering” the relevant other information will likely only be some subset (and possibly a small one) of all the auditors involved in group audit. Therefore, we believe it would be appropriate for the Board to provide some practical guidance in the Application Material about how to apply the proposed standard in a group audit situation.

(c) Do you 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?

We believe that the work effort required, based on the current proposed standard, is not sufficiently clear (specifically with respect to the time period of the auditor's responsibilities, the scope of documents and other information covered by the proposed standard and the meaning of terms such as "consider" and "material inconsistency"). We believe further clarification is needed on each of these items in order to fairly determine the impact on expected work effort.

We believe that as the proposed standard is drafted, the scope of procedures required to perform an audit in accordance with the ISAs will increase. This increase could, in some situations, be significant and we do not believe that the proposed standard is currently clear with respect to the scale of work that is required from the auditor in order to comply with the proposed standard.

We believe that there should be transparency by the Board with respect to the expected increase in resources needed to implement the changes as proposed. This transparency may be made in the form of a communication acknowledging the incremental effort required from the auditor in order to assist the auditor in the negotiation with management of the costs that will be incurred to fulfill their responsibilities in terms of the proposed standard.

Also, in order to clarify that the auditor has the ability to exercise professional judgment in determining the scope of procedures required by the proposed standard, and that the auditor is not expected to expand the understanding of the entity and its environment beyond that already required by the ISAs, we suggest adding incremental application guidance which could follow paragraph A37 in the Application Material:

"The auditor may exercise professional judgment in focusing the auditor's consideration of the other information. The auditor is not required to seek to enhance the auditor's understanding of the entity and its environment beyond that required in ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

We also suggest the Board consider including guidance in the Application Material with regard to the use of auditor's experts in reading and considering the other information. We believe that the use of an expert in this regard shouldn't be a requirement of the proposed standard, but that the auditor can exercise professional judgment when considering whether to involve an expert in reading and considering the other information. For example, if the other information addresses subject matter that relates to account balances and assertions that an auditor's expert was involved in auditing, and then it may be appropriate for the auditor to request that the expert read and consider the other information.

We also recommend that the Board consider enhancing the documentation requirements in paragraphs 20 and A65 of the proposed standard. The proposed standard only requires that the auditor shall retain in the audit documentation those document(s) that have been read and considered by the auditor. We believe that this could be subject to misinterpretation by auditors by causing them to believe that they do not need to prepare and maintain audit documentation relating to the results of their work pertaining to these document(s). At a minimum, we would suggest that it is clarified that auditors are expected to have appropriate audit documentation of their judgments applied in reading and considering the other information and documentation of any material inconsistencies that were identified.

9. Do you believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

Yes, we believe the inclusion of examples of qualitative and quantitative information included in the Appendix is helpful.

We, however, draw the board's attention to examples included in the quantitative and qualitative examples, namely "Amounts involved in and related finance effects, of off-balance sheet arrangements" and "Descriptions of the nature of off-balance sheet arrangements." We note that in certain jurisdictions the wording "off-balance sheet arrangements," could be construed as illegal transactions. We suggest revising this wording to better reflect what was intended with these two examples.

In addition, as mentioned earlier in our response to Question 5(a), we don't believe that the level of involvement required from the auditor with regards to forward looking information is sufficiently clear. We believe the examples provided do not serve to further clarify this; and, we, therefore, recommend the Board consider clarifying the responsibility on the auditor in this regard.

We also believe that some of the examples (especially those listed under Qualitative Financial Information) are far removed from the expertise of "the average auditor."

Accordingly, we ask the Board to reconsider the examples and challenge whether the auditor will be able to consider, in a meaningful way, the information based on the understanding of the entity and its environment acquired during the course of the audit, as required in ISA 315. For example, we do not believe auditors necessarily have expertise with respect to "trends in market prices of key commodities or raw materials" or "contrasts of supply, demand and regulatory circumstances between geographic regions."

10. Do you 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?

Yes, we believe it is clear what the auditor's response should be if the auditor discovers that the auditor's understanding of the entity and its environment acquired during the audit was incorrect or incomplete.

11. With respect to reporting:

(a) Do you 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?

See our earlier responses with respect to the terms "inconsistency," "material inconsistency," "primary purpose" and "consider."

(b) Do you 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?

We believe the phrase that states “no audit opinion or review conclusion” is expressed, could imply to the user that another form of assurance is being provided and we believe the audit report should state “no assurance is provided.”

In addition, we suggest that the Board consider adding illustrative wording to paragraphs A60 to A63 to address situations where the audit opinion is modified, as this guidance would be helpful to the auditor.

12. Do you 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?

We are supportive of the premise that no assurance is being provided on other information, based on the very limited nature of the auditor’s procedures.

COMMENTS ON CONFORMING AMENDMENTS TO OTHER STANDARDS

We note the following additional paragraphs or sections in other standards that refer to ISA 720 and which will therefore require Conforming Amendments:

- ISA 260, Appendix 1
- ISA 450, the foot note to paragraph A16
- ISA 760, Appendix 2
- ISA 810, paragraph 24 and the foot note to paragraph A19
- ISRE 2410, paragraph 37
- ISAE 3402, paragraphs 41, 42 and A45
- ISAE 3420, paragraph 27

We, therefore, recommend the Board reconsider the completeness of the section titled “Proposed Consequential and Conforming Amendments to other ISAs.”

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We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen via email (jensimonsen@deloitte.dk) or at +45 361 03781.

Very truly yours,

A handwritten signature in black ink, appearing to be 'Jens Simonsen', written in a cursive style.