

Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York, New York 10017  
USA

22 March 2013

Dear Mr. Gunn:

**Exposure Draft, 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***

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, 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* (proposed ISA 720), as well as the Proposed Consequential and Conforming Amendments to other ISAs.

We agree that it is appropriate for IAASB to reconsider the auditor's responsibilities for other information, provided that any modifications to the auditor's responsibilities for other information remain consistent with the scope of the financial statement audit. We recognize that:

- Users have greater interest in, and are placing more importance on, other information, which varies in terms of nature and extent; therefore, it is in the public interest to consider ISA 720 in context of the current environment
- Current practice in many jurisdictions goes beyond the "read" requirement in extant ISA 720, and typically includes some procedures to corroborate other information
- It is important to promote global consistency in the auditor's responsibilities for other information
- There has been a strong call from stakeholders globally to increase transparency by providing an explicit statement in the auditor's report regarding the auditor's responsibilities for other information

Although we support the IAASB's aim in strengthening the current standard with a goal of making it "fit for purpose" in the current environment, we believe that the revisions in proposed ISA 720 result in a standard that seems overly complicated and would be difficult to implement in practice.

Specifically, we believe that fundamental changes have been made to the objectives, definitions and scope in proposed ISA 720 and that the auditor's responsibilities for other information have been inappropriately expanded as a result. We do not believe that extant ISA 720 requires such fundamental changes, but that it could be improved to:

- Explicitly report on the auditor's responsibilities and related work effort with respect to other information

- Better align the scope and work effort to the current environment and current practices

Accordingly, we have suggested in our comments that certain concepts from extant ISA 720, such as the objectives and definitions, be retained and improved, as opposed to fundamentally revised. In addition, we have provided comments throughout our letter where we believe the requirements and application material included in proposed ISA 720 inappropriately extend the scope of the financial statement audit. If users are seeking assurance on other information, the appropriate response would be for the IAASB, acting in the public interest, to explore the need for separate assurance engagements on other information.

We have summarized our significant comments and concerns below, and elaborate on them in the Appendix to our letter.

#### *Scope and definition of other information*

One of the most significant changes in the proposed ISA is the expansion of the scope to include documents accompanying audited financial statements and the auditor's report thereon. We understand the aim is to promote global consistency in the auditor's responsibilities when the "packaging" of other information for a jurisdiction or entity is such that documents of an equivalent nature to the other information in scope under extant ISA 720 are not contained in a document including the audited financial statements but, instead, accompany them.

We agree that the determination of other information in scope should be driven by the primary purpose of the other information, rather than its format. Paragraph 9(c)(ii) states that other information has "a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process." We agree with this stated purpose, but believe this should not be "a" primary purpose, but "the" primary purpose. We believe this would add clarity to the determination of documents that would be within the scope of the standard.

Further, in light of the proposed expansion of work effort to "read and consider" the other information, we believe that the auditor only has a basis to "consider" other information that meets this primary purpose. It is therefore inappropriate, in our view, to include in the scope a document in its entirety when it contains certain information for which the auditor does not have a basis to "consider" it (i.e., information that does not meet "the" primary purpose as noted above and therefore is not relevant to the auditor's objective of determining consistency of such information with the audited financial statements). This concern is exacerbated by the proposed auditor reporting requirement. We believe that reporting as if the document in its entirety has been "considered" would be misleading and would unnecessarily increase the expectations gap for users of the auditor's report.

Overall, we believe the proposed standard would be improved, and easier to apply in practice, if there was greater prescription regarding documents that are in and out of scope. Paragraphs A12 and A13 appear to create fairly bright lines in this regard, and we agree with the types of documents that would be within the scope of the proposed standard (paragraph A12) and those that would be outside its scope (paragraph A13). This level of prescription, coupled with discussions with management about the nature and timing of the documents that are expected to be issued (as would be required by paragraph 10 of proposed ISA 720), would help to clarify and

simplify the scope determination. In our view, this also would make the new concept of “initial release” unnecessary.

### *Objectives*

We have significant concerns about the revisions to the objectives in proposed ISA 720. Generally, we agree with the objectives to “respond appropriately” and “report.” However, we believe the objective as written puts too much focus on inconsistencies with the auditor’s understanding of the entity and its environment rather than inconsistencies with the audited financial statements. We strongly believe that the objectives need to retain the “anchor” to the audited financial statements. Without this clear link to the audited financial statements, we believe the objectives are fatally flawed.

In our view, the objective of the auditor is to read and consider the other information (using the context of the auditor’s understanding of the entity and its environment) to identify material inconsistencies that contradict information in the audited financial statements or that may indicate that the audited financial statements may be materially misstated. More broadly, the auditor has an obligation under the IFAC Code of Ethics not to be associated with information that the auditor believes to be materially false or misleading.

### *Definitions of inconsistency and material inconsistency*

We believe that the definition of inconsistency, including the description of when inconsistencies are considered material, has strayed too far from extant ISA 720. As indicated above, we believe that the concept of inconsistency needs to be related to the audited financial statements. Also, we believe the terms used in the definition of inconsistency are too subjective to be applied effectively and consistently in practice. In addition, it is unclear whether a definition that uses such subjective terms would result in a work effort that is appropriate for the scope of the financial statement audit.

We also believe it is inappropriate to apply the concept of materiality in ISA 320 in the context of inconsistencies. As a result of this adaptation, the description of “material” in the context of inconsistencies could incorrectly and inappropriately imply that the same level of performance materiality is applied to both the audited financial statements and other information.

From a practical perspective, we are uncertain how the auditor is expected to apply the concept in the proposed definitions of evaluating economic decisions of users taken on the basis of the “audited financial statements and the other information as a whole” when certain documents in the scope of proposed ISA 720 may not be available until after the date of the auditor’s report. Besides this potential timing challenge, as the financial statements and the other information are not prepared under the same financial reporting framework, we believe an evaluation in this manner is not appropriate.

In our view, the extant ISA 720 definitions remain appropriate and should be retained. In addition, the extant ISA 720 concept of materiality, which is focused on the consideration of the effects of inconsistencies in the other information on the auditor’s conclusions and on the credibility of the audited financial statements, is more appropriate.

### *Work effort*

In line with our views on the objectives of proposed ISA 720, we have concerns about the requirement in proposed ISA 720 that “the auditor shall read and consider the other information in light of the auditor’s understanding of the entity and its environment.” In our view, the auditor uses the understanding of the entity and its environment, as well as the knowledge obtained through audit procedures performed, as appropriate context when “reading and considering” other information for consistency with the audited financial statements.

Further, “considering” in our view means that the auditor needs to perform some procedures. Although we agree that the nature and the extent of procedures performed to “consider” the other information should be left entirely to the auditor’s professional judgment, we believe it would be clearer if the “read and consider” requirement (paragraph 11) explicitly stated that the auditor shall perform some procedures. Application material should be provided to assist the auditor in understanding the types of procedures that may be appropriate. However, we believe that the application material to paragraph 11 in proposed ISA 720 suggests a work effort for other information that goes beyond what we believe would be appropriate as part of the financial statement audit. Specifically, we do not agree with many areas of the application material in proposed ISA 720 regarding the work effort for each category of other information, especially for other information that is not related to the audited financial statements or the financial reporting process.

### *Reporting*

In our response to the IAASB Invitation to Comment on Auditor Reporting, we were supportive of auditor reporting related to the auditor’s responsibilities for other information. We continue to support greater transparency about the auditor’s responsibilities related to other information in the auditor’s report and continue to believe that it is particularly important that any auditor statement about other information not be misinterpreted by users as assurance on such information.

However, consistent with our concerns related to the revisions to key concepts in extant ISA 720, we do not support the revised reporting statement. We believe that the terminology in the reporting statement is subject to misinterpretation and will likely result in a widening of the expectations gap.

Auditor reporting on other information also will have practical challenges based on the timing of availability of other information, the timing of the auditor’s report, and the timing of release of documents that include or accompany the audited financial statements and the auditor’s report thereon. We do not believe that the guidance in proposed ISA 720 sufficiently addresses these practical difficulties.

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We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Professional Practice ([karen.golz@ey.com](mailto:karen.golz@ey.com)).

Yours sincerely,

*Ernst + Young Global Limited*

## Appendix

The appendix to our comment letter on proposed ISA 720 is organized as follows:

Section 1 – Responses to specific questions on which the IAASB is seeking feedback

Section 2 – Responses to other matters on which the IAASB is seeking feedback

Section 3 – Other comments on proposed ISA 720

Section 4 – Comments on proposed consequential and conforming amendments

### 1. Responses to specific questions on which the IAASB is seeking feedback

#### **1.1 *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?***

As indicated in our summary comments, we do not believe that extant ISA 720 requires such fundamental changes, but that it could benefit from improvements to:

- Explicitly report on the auditor’s responsibilities and related work effort with respect to other information
- Better align the scope and work effort to the current environment and current practices

Therefore, we agree with strengthening the auditor’s responsibilities with respect to other information provided that it is directly responsive to the improvements referred to above. However, the auditor’s responsibilities with regard to other information must remain aligned with the scope of the financial statement audit.

Although we support the IAASB’s aim in strengthening the current standard, we believe that the result of the revisions in proposed ISA 720 is a standard that seems overly complicated and would be difficult to implement in practice. Therefore, we believe that the costs of applying proposed ISA 720 as drafted may significantly exceed the benefits.

We strongly believe that, within the scope of the financial statement audit, the auditor’s responsibilities for other information relates to identifying material inconsistencies with the audited financial statements and, more broadly, to the auditor’s obligation under the IFAC Code of Ethics not to be associated with information that the auditor believes is materially false or misleading. We support making such responsibilities transparent in our auditor’s report as we believe such transparency is in the public interest.

Accordingly, we believe there are four principal elements of the standard that need to be clearly understood individually and together to accomplish the intended objective with respect to other information: scope, definitions, work effort and reporting. In particular, it needs to be clear to financial statement users that the auditor’s responsibility is not to provide assurance on the other information. If users are seeking assurance on other information, the appropriate response would

be for the IAASB, acting in the public interest, to explore the need for separate assurance engagements on other information.

**1.2 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?**

Yes. We understand the aim is to promote global consistency in the auditor's responsibilities. Specifically, this expansion acknowledges that the "packaging" of other information for a jurisdiction or entity may be such that documents of an equivalent nature to the other information in scope under extant ISA 720 (e.g., a typical annual report) are not contained in a document including the audited financial statements but, instead, accompany them.

We agree that accompanying documents in scope should have, as stated in paragraph 9(c)(ii), a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process. Although we agree with this stated purpose, we believe this should not be "a" primary purpose, but "the" primary purpose. This change would add further clarity to the determination of documents that would be within the scope of the standard.

Overall, we believe the proposed standard would be improved, and easier to apply in practice, if there was greater prescription regarding documents that are in and out of scope. Please refer to our comments in sections 1.2, 3.1, and 3.2 of this letter in this regard.

**1.3 Do respondents find the concept of initial release clear and understandable?**

No. We believe that the concept of "initial release" is unduly complex and we question whether the concept is necessary.

We understand that the concept of "initial release" was introduced to provide parameters around the expansion of scope to accompanying documents. However, this "initial release" also would apply to other information in documents containing the audited financial statements and auditor's report thereon, as noted in paragraph 9(c)(i). Extant ISA 720 defines documents containing other information as being in scope (without the necessity of an "initial release" concept). We are not aware of any issues with this in practice, and therefore we question the necessity of the "initial release" concept, which we believe would add complexity in practice.

If the intent of extending the scope to accompanying documents is to merely explicitly acknowledge the potential differences in "packaging" of other information that occur across jurisdictions, it would stand to reason that these equivalent documents, based on their nature, would be subject to the auditor's responsibilities without regard to timing of release. In addition, we assume that management would be inclined to release other information close to the date of the release of the audited financial statements (as, by definition, the other information has the primary purpose of providing commentary on said financial statements), or at times established by custom or practice (e.g., annual shareholders' meetings). Therefore, the timing of release in many cases should be predictable.

In general, we believe that establishing brighter lines regarding which documents are in or out of the scope of proposed ISA 720, coupled with discussions with management about the nature and timing of documents expected to be issued, would be less confusing and would be workable in practice. In our view, doing so may make the concept of “initial release” unnecessary.

***In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?***

Yes. Although we believe that it is clear that “initial release” is different from the date the financial statements are issued as defined in ISA 560, we question the need for the separate “initial release” concept, as discussed above.

***1.4 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?***

No, we do not agree with the requirements and guidance in proposed ISA 720 related to securities offerings. We believe that the auditor’s responsibilities related to securities offerings would be best addressed through a separate IAASB standard (e.g., a standard addressing comfort letters), as the auditor’s work effort related to securities offerings often is dictated by law or regulation and differs in nature, timing and extent than for other information within the scope of the financial statement audit.

In the absence of a separate standard, we believe the applicability to securities offerings as described in paragraph 2 of extant ISA 720 continues to be appropriate. This paragraph states that ISA 720 may be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements such as securities offerings.

Certain of the guidance in paragraph A1 of proposed ISA 720 could be helpful application material if the extant ISA 720 treatment of securities offerings is retained (e.g., the explanation that securities offering documents are often subject to specific national requirements, and the example that, when an entity issues its audited financial statements for the first time in a public prospectus, the use of ISA 720 may be appropriate).

***1.5 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?***

No. Generally, we agree with the objectives to “respond appropriately” and “report.” However, we believe the objective as written puts too much focus on inconsistencies with the auditor’s understanding of the entity and its environment rather than inconsistencies with the audited financial statements. We strongly believe that the objectives need to retain the “anchor” to the audited financial statements. Without this clear link to the audited financial statements, we believe the objectives are fatally flawed.

In our view, the objective of the auditor is to read and consider the other information (using the context of the auditor’s understanding of the entity and its environment) to identify material inconsistencies that contradict information in the audited financial statements or that may indicate that the audited financial statements may be materially misstated. More broadly, the auditor has an obligation under the IFAC Code of Ethics not to be associated with information that the auditor believes to be materially false or misleading.

As to the wording of the objectives, we do not believe the phrase “inconsistency in the other information” is appropriate or clear. We also believe that it may be appropriate to retain the concept of “material misstatement of fact” from extant ISA 720, and that if such concept is retained, it should be reflected in the objectives. Please refer to section 1.6 for further comments.

***1.6 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, we do not believe that the definitions of “inconsistency” and “material consistency” are appropriate. As stated previously, we believe that the concept of inconsistency needs to be related to the audited financial statements. Also, we believe the terms used in the definition of inconsistency are too subjective to be applied effectively and consistently in practice. In addition, it is unclear whether a definition that uses such subjective terms would result in a work effort that is appropriate for the scope of the financial statement audit.

*Inconsistency*

The definition of inconsistency in proposed ISA 720 is inappropriate because it:

- Includes highly subjective terms (e.g., unreasonable, inappropriate) that are not appropriate criteria for defining inconsistency
- Does not clearly indicate what the other information is being compared with for the purpose of determining whether an inconsistency exists (i.e., consistency with the audited financial statements), and instead suggests that the auditor’s responsibilities for other information include the identification of inaccuracies in other information on a standalone basis

In our view, the extant ISA 720 definition of inconsistency, which is information that contradicts information in the audited financial statements, should be reinstated. The extant definition clearly explains the basis of comparison to other information for the purposes of identifying

inconsistencies. More importantly, what we view as the primary objective of the auditor's responsibilities for other information (i.e., consistency with the audited financial statements) is appropriately reflected.

*Material inconsistency, including the concept of materiality for purposes of ISA 720*

We believe it is inappropriate to apply the concept of materiality in ISA 320 in the context of inconsistencies. To do so could incorrectly and inappropriately imply that the same level of performance materiality is applied to both the audited financial statements and other information.

Further, from a practical perspective, we are uncertain how the auditor is expected to apply the concept in the proposed definition of evaluating economic decisions of users taken on the basis of the "audited financial statements and the other information as a whole" when certain documents in the scope of proposed ISA 720 may not be available until after the date of auditor's report. Besides this potential timing challenge, as the financial statements and the other information are not prepared under the same financial reporting framework, we do not believe that an evaluation in this manner is appropriate.

In our view, the manner in which extant ISA 720 defines materiality is more understandable and appropriate than in proposed ISA 720. From a practical perspective, in reading and considering other information, the auditor is considering the effects of inconsistencies in the other information on the auditor's conclusions and on the credibility of the audited financial statements. These concepts are better represented in extant ISA 720.

*Material misstatement of fact*

We note that the concept of "material misstatement of fact" in extant ISA 720 has been removed in proposed ISA 720, presumably because it is embedded in the revised broader definition of material inconsistencies.

If the extant ISA 720 definitions of inconsistency and material inconsistency are reinstated, we believe that it also may be appropriate to reinstate the concept of material misstatement of fact. However, we see opportunities to improve this definition by adding application material that explains the potential sources of material misstatement of fact.

Specifically, we see the concept of material misstatement of fact to be directly linked to our view that the context applied to reading and considering other information for consistency with the financial statements involves the auditor's understanding of the entity and its environment. (Please refer to section 1.8 of this letter for further comments). In this context, the auditor may identify a material misstatement of fact in other information that is not directly derived from the financial statements, but is related to the understanding that the auditor obtained, or was required to obtain, during the course of the audit.

**1.7 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?**

No, we do not believe that users of auditor's reports will understand the phrase "material inconsistencies in other information" in the statement for the auditor's report included in paragraph A57 of proposed ISA 720.

Rather, as previously expressed, we believe that inconsistencies should be described in terms of contradictions between the other information and the audited financial statements, and this should be made clear in any statement with respect to other information in the auditor's report. We believe that any reference to "material inconsistency" in the statement in the auditor's report would be fatally flawed if its meaning is not understandable to financial statement users. In that regard, we believe it is very important for users to understand that the primary objective of the auditor's responsibilities is to identify material inconsistencies between the other information and the audited financial statements.

**1.8 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?**

No, we do not agree with the work effort as it is described in proposed ISA 720. We believe that the approach, including the nature and extent of guidance for the "read and consider" requirement, suggests a work effort for other information that goes beyond what we believe would be appropriate as part of the financial statement audit. Specifically, we do not agree with many areas of the application material in proposed ISA 720 regarding the work effort for each category of other information, especially for other information that is not related to the audited financial statements or the financial reporting process.

Certain of our concerns about the work effort are interrelated with our concerns on the scope, objectives and definitions of proposed ISA 720. We support changing the "read" requirement to "read and consider" as long as the scope of proposed ISA 720 is clarified to ensure that the auditor's responsibilities extend only to other information with the primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process. Please refer to sections 1.2, 3.1, and 3.2 of this letter for an explanation of our concerns in this regard.

***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?**

Yes, we agree that a principles-based approach is appropriate that allows the use of the auditor's professional judgment in determining the nature and extent of work effort related to the other information. However, we have concerns about the principle of the work effort as described in paragraphs 11 and A28 through A36 of the proposed ISA. As "read and consider" could have

different interpretations, we believe it is important to clearly articulate what is meant by this principle in the application material.

We believe it is more appropriate to explain in application material that “reading and considering” other information involves the auditor’s use of the understanding of the entity and its environment as appropriate context in determining consistency with the audited financial statements. This includes the understanding required to be obtained in accordance with ISA 315, as well as the knowledge obtained by the auditor in the course of performing audit procedures and gathering audit evidence.

With this intent in mind, it would be helpful to expand the application material in paragraphs A28 and A29 to explain this context, in order to appropriately connect the auditor’s work effort under proposed ISA 720 to the work already performed for the audit of the financial statements. For example, the guidance in paragraph A29 is narrowly focused on understanding obtained about prospective matters. This guidance would be more helpful if it was supported by application material that addresses generally how the auditor uses the understanding and information obtained throughout the audit to achieve the objective of identifying inconsistencies with the audited financial statements.

Further, in our view, “considering” means that the auditor needs to perform some procedures. Although we agree that the nature and extent of procedures performed to “consider” the other information should be left entirely to the auditor’s professional judgment, we believe it would be clearer if the “read and consider” requirement (paragraph 11) explicitly stated that the auditor shall perform some procedures, and application material should be provided to assist the auditor in understanding the types of procedures that may be appropriate. In this regard, we have some concerns about the application material in paragraphs A28 through A43.

We do not agree with including factors to guide the auditor’s professional judgment in the application material, such as those in paragraph A36, as we do not believe it is necessary to do so if the objective of proposed ISA 720 is focused on consistency with the audited financial statements. More importantly, including such factors may widen the expectations gap by implying, for example, that the auditor will make individual judgments of the perceived importance of each item in other information, or that the auditor will always perform procedures on larger quantitative amounts found in the other information.

With an appropriately described principle, paragraphs A37-A43 could be clearly characterized as guidance on the nature of procedures that may be appropriate based on the nature of the other information for which the auditor has determined to perform procedures. Please refer to our comments in section 1.8b of this letter in this regard.

***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?***

We believe the categories of information in paragraph A37 seem to encompass the possible categories of other information, but we do not believe that the guidance for the nature and extent of the work effort for each category is appropriate. Specifically, we believe that the volume of guidance itself implies a work effort that goes beyond what we believe would be appropriate as

part of the financial statement audit. Further, we view certain guidance as inappropriate, as it includes procedures or examples of procedures that are beyond the objective of determining consistency with the audited financial statements.

Accordingly, we have the following suggestions for improvement to paragraphs A37 through A43:

- Condense into paragraph A37(c) the descriptions in paragraphs A38 and A39 of directly reconcilable financial information to reduce the separate emphasis on non-GAAP information.
- Delete paragraph A40.
- Reconsider the guidance in paragraphs A41 through A43 (see details that follow).

The guidance in paragraphs A41 through A43 should be re-characterized as procedures that may be performed for other information that is not directly related to the audited financial statements, but for which the auditor may have related audit evidence that can be referenced. We have concerns about certain guidance in these paragraphs that appears to suggest that the auditor would perform procedures involving obtaining support for other information that is not otherwise included in the audit evidence obtained. Our specific concerns are as follows:

- We believe that paragraph A41 should clearly state that the auditor is not responsible for performing procedures on “remaining other information” that is not related to the understanding of the entity and its environment obtained, or required to be obtained, during the course of the audit.
- We would suggest deleting the first bullet in paragraph A42, as such detail is unnecessary and could have unintended consequences by implying that work should be done for each of these possible types of other information.
- Regarding paragraph A43, we do not believe it is appropriate to suggest that separate management analyses should be obtained for purposes of considering other information. We believe that only the examples in the second bullet are appropriate (i.e., comparison with the audit documentation or involvement of the component auditor), but we nevertheless suggest deletion of this entire paragraph. Given our suggested clarifications to paragraph A41, we do not believe such examples are necessary.

***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?***

No, we believe the work effort as described in the application material may be interpreted as extending the scope of the audit beyond what is appropriate in the context of the audit of the financial statements. Please refer to our comments and concerns expressed in section 1.8 of this letter.

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

Yes, we believe that providing examples of other information in proposed ISA 720 is helpful. However, in line with our previously expressed views, any examples provided of other information that is likely to be in scope of proposed ISA 720 should have the primary purpose of providing

commentary to enhance the users' understanding of the audited financial statements or the financial reporting process. (Please refer to section 1.2, 3.1 and 3.2 for our views on the scope of proposed ISA 720). Certain of the examples included in this Appendix do not appear to meet this primary purpose (e.g., summaries of operations or operational data, sustainability and social responsibility information, non-GAAP information).

Also, as previously expressed, we believe that the proposed standard would be improved, and easier to apply in practice, if there was greater prescription regarding documents that are in and out of scope. It may be useful to update this Appendix to supplement such prescriptive requirements by providing additional examples of other information that likely would be considered in or out of scope based on their primary purpose.

**1.10 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?**

Yes, we believe that the guidance in A49 related to new information that may have implications on the understanding of the entity and its environment, and the auditor's risk assessment, which includes reference to the relevant requirements in ISA 315, is appropriate and helpful.

**1.11 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?**

No, we do not believe the terminology used in the statement to be included in the auditor's report under proposed ISA 720 is clear or understandable.

Our concerns with this terminology in the auditor's report are related to our concerns that have been expressed in our answers to other questions as follows:

*"Read and consider"* - Consistent with our views in section 1.8 of this letter, we believe that "read and consider" language may only be included in the auditor's report if the scope of proposed ISA 720 is limited to other information with the purpose of providing commentary on the audited financial statements or the financial reporting process, such that the auditor is able to effectively "consider" all of the other information determined to be in scope.

*"In light of our understanding of the entity and its environment"* - Consistent with our views in section 1.5 of this letter, we do not believe the phrase "the auditor's understanding of the entity and its environment" is meaningful to users of the auditor's report, and may widen the expectations gap. Further, we believe the primary objective of proposed ISA 720 is related to consistency of the other information with the audited financial statements. If the objectives and auditor's report were revised to reflect this, then the revised terminology would have greater clarity for users.

*“Material inconsistencies in other information”* – Please refer to section 1.7 of this letter for our comments and concerns.

***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?***

No, we believe it may not be clear that no assurance is being expressed with respect to other information.

The form of the statement “we have not identified any material inconsistencies” appears to be a form of positive assurance regardless of the disclaimer language regarding “no audit opinion or review conclusion”. We are uncertain of the relationship of such a positive statement to the International Framework for Assurance Engagements (Assurance Framework). It may be more appropriate to use language such as “we are not aware of any material inconsistencies” as a result of our work performed under proposed ISA 720.

By including the auditor’s conclusion on other information in the body of an auditor’s report that is otherwise prepared to express an opinion on the audited financial statements, there is a risk that the users of the auditor’s report will expect the other information described in the auditor’s report is subject to the overall opinion expressed on the financial statements. We encourage the IAASB to further consider as part of its auditor reporting project the appropriate placement in the auditor’s report of the statements relating to other information, including the possibility of including such statements in an appendix or a supplemental report.

The opening sentence of the auditor’s statement in paragraph A57 indicates that it is the auditor’s responsibility to “read and consider” the other information. We believe there is a risk that it will not be clear how the auditor could have considered the other information but did not “review the other information.” In general, we are uncertain if a “review conclusion” has as broad an understanding as that of an audit opinion. Accordingly, if possible, it may be clearer to remove the specific references to reviews and instead include a statement (in a manner consistent with the Assurance Framework) that essentially conveys that no assurance can be taken from the auditor’s statements related to other information.

In jurisdictions where the auditor is required by law or regulation to provide a specific conclusion on certain documents or statements on other information, we are concerned that there is a greater risk of user confusion or misunderstanding. We encourage the IAASB to seek feedback from those jurisdictions where such reporting has been mandated to determine any potential conflicts or difficulties in implementing the proposed ISA 720 requirements, as well as recommended strategies for dealing with statements on other information related to ISA 720 and national requirements in the same auditor’s report.

***1.12 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?***

We assume that the intent of this question is to confirm that it is appropriate that no assurance is expressed in the auditor’s report with regard to other information. If so, we confirm that

expressing no assurance on the other information in the auditor's report is appropriate because the procedures performed would not provide a basis for doing so.

As stated previously, if users are seeking assurance on other information, the appropriate response would be for the IAASB, acting in the public interest, to explore the need for separate assurance engagements on other information.

## **2. Responses to other matters on which the IAASB is seeking feedback**

***Effective Date—Recognizing that the proposed ISA is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.***

Given the introduction of auditor reporting in proposed ISA 720, which has been positioned as a component of the IAASB's broader auditor reporting project, we believe that the effective date of the auditor reporting requirements of revised ISA 720, at a minimum, should be aligned with the effective date of revised ISA 700.

## **3. Other comments on proposed ISA 720**

### ***3.1 Scope: Other information included in documents in scope that does not have a purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process***

We have concerns about the requirement in paragraph 4 and the guidance in paragraphs A13 and A32 of proposed ISA 720 to scope in other information that does not have the primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process, and that may be beyond the auditor's understanding of the entity and its environment acquired in connection with the audit. We believe it will widen the expectations gap, and potentially increase auditor liability, for the auditor to indicate in the auditor's report that such a document has been "considered" in its entirety.

Instead, in such cases, we believe that proposed ISA 720 should permit the auditor to scope out components of other information within a document that is otherwise in scope if the auditor does not have a basis to fulfill the "read and consider" requirement related to such components (i.e., such components do not meet the primary purpose as stated). In our view, the types of other information listed in A13 and the non-financial other information listed in A15 would be appropriate examples of what could be excluded by the auditor, using professional judgment. In addition, we believe that components of non-GAAP financial information or prospective financial information should be excluded from scope unless such information was otherwise related to the procedures performed as part of the audit of the financial statements.

We recognize that scoping out particular components of documents will cause challenges in describing in the auditor's report the specific information that was subject to the auditor's procedures. Accordingly, we believe application material will be necessary in this regard.



### ***3.2 Scope: Documents issued electronically, including on the entity's website, and documents incorporated by reference***

Due to the specific nature and risks associated with information on an entity's website, we believe that proposed ISA 720 should explicitly exclude website content from the scope of other information, and only acknowledge a website as a possible distribution mechanism for documents otherwise determined to be in scope. We believe that this may have been the intent of paragraph A8, but this paragraph is unclear and could be incorrectly interpreted that other website content should be considered in determining accompanying documents falling within the scope of the proposed standard.

Further, in some cases, documents in scope may refer to other documents, and thereby incorporate such documents by reference. Proposed ISA 720 should be clarified that such documents are not automatically in scope due to incorporation by reference. As previously expressed, documents should be within the scope of proposed ISA 720 based on the primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process..

### ***3.3 Reporting***

As noted in our responses to questions 1.7 and 1.11, we believe that inconsistencies should be described in terms of contradictions between the other information and the audited financial statements, and this should be made clear in any statement with respect to other information in the auditor's report. We believe that any reference to "material inconsistency" in the statement in the auditor's report would be fatally flawed if its meaning is not understandable to financial statement users. In that regard, we believe it is very important for users to understand that the primary objective of the auditor is to identify material inconsistencies between the other information and the audited financial statements.

Further, reporting on other information will cause practical challenges based on the timing of availability of other information, the timing of the auditor's report, and the timing of release of documents that include or accompany the audited financial statements and the auditor's report thereon. We do not believe that the proposed reporting statements or certain application material is appropriate in this regard for the following reasons.

As the auditor's report will refer only to other information that was available and "read and considered" prior to the date of the auditor's report, the listing of other information in the auditor's report will not represent all other information in scope if certain other information is not available until after the report date. Differences in timing of availability of other information will affect consistency and comparability of auditor's reports across entities and may widen the expectations gap, especially if it is not clear that such differences may be simply due to timing. We believe that the proposed reporting statements should be clarified to indicate applicability only to other information that was available prior to the auditor's report date.

Paragraph A59, which states that the auditor is not permitted to update the auditor's report for other information available after the auditor's report date, is neither practical nor appropriate. If the auditor's report is subsequently included with documents that contain other information in scope of the auditor's responsibilities, but such other information was not available at the time of

the auditor's report, we believe that the auditor should have the ability to update the statements on other information in the auditor's report that is included with such documents.

Including auditor reporting on other information in the body of the auditor's report may cause challenges, for example, in accommodating a longer descriptive list of other information in scope, the ability to update the reporting, or cases when the auditor's report is subsequently contained in documents that were not in scope (e.g., loan tender documents, offerings) or without documents that were in scope. To provide for such situations, further consideration should be given to the form of auditor reporting, including whether an appendix or a supplemental report may be more appropriate.

### ***3.4 Responding to material inconsistencies: Requesting management to consult with a third party of legal counsel***

We do not believe the guidance in paragraph A48 is appropriate in the context of determining consistency of the other information with the audited financial statements. It suggests performing procedures that are beyond this objective, including a greater than appropriate responsibility for the auditor regarding the validity of management's statements in the other information.

### ***3.5 Considerations specific to public sector entities***

We believe that paragraph A54, which states that the auditor "may issue a report to the legislature" when withdrawal from a public sector audit engagement is not possible, should more generally acknowledge providing such a report to an appropriate authority, as reporting to the legislature may not be applicable in all jurisdictions.

## **Comments on proposed consequential and conforming amendments**

### ***4.1 ISA 260***

We support the addition to ISA 260 to encourage communications with those charged with governance about the other information that the auditor will read and consider in accordance with ISA 720. We believe that this communication will be important to the timely availability of the other information, and will set expectations for the auditor reporting related to such other information.

We also believe that it is important to communicate the final contents of the auditor's report to those charged with governance, including the statements related to other information.

Regarding the conforming amendment to paragraph A20, we believe that consideration should be given to reinstating material misstatement of fact in accordance with our views expressed in section 1.6 of this letter.

### ***4.2 ISA 700***

We do not agree with the consequential changes to paragraph A51 on unaudited supplementary information as expressed in our views on the objective of proposed ISA 720 in section 1.5 of this letter.

We would also expect a conforming amendment to ISA 700 to include a requirement that the auditor include in the auditor's report the statements related to other information in accordance with the reporting requirements of proposed ISA 720.

#### **4.3 Glossary of terms**

We do not agree with the conforming changes to the glossary of terms for the definitions of other information, initial release or inconsistency in other information as expressed in our views in sections 1.2, 1.3, and 1.6 of this letter, respectively.