

July 17, 2014

Kathleen Healy — Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Ms. Healy,

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to have the opportunity to provide comments on the Exposure Draft, Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information; Proposed Consequential and Conforming Amendments to Other ISAs* (the "Proposed ISA 720 (Revised)" or the "Proposal"), issued by the International Auditing and Assurance Standards Board ("IAASB" or the "Board") in April 2014.

DTTL commends the IAASB on the outreach that it has undertaken subsequent to the exposure in November 2012 of Proposed 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* ("ED-720 (2012)"), as well as the extensive work effort that has gone into developing Proposed ISA 720 (Revised). DTTL continues to be supportive of the overarching intent of the IAASB in revising ISA 720 "to bring greater clarity and enhanced consistency around the world regarding the auditor's responsibilities related to other information."¹

EXECUTIVE SUMMARY

The significant changes in Proposed ISA 720 (Revised) are positive and reinforce the intent of the Board as mentioned above. In particular, DTTL is supportive of the improvements made by the IAASB to Proposed ISA 720 (Revised) in the following areas:

- **Scope** — Highlighting that the requirements are only applicable to other information contained in the annual report. DTTL concurs with this approach, because the concept of an annual report is well understood in jurisdictions around the world.
- **Objectives** — Focusing explicitly on the auditor's responsibilities as they relate to the work effort to be undertaken relative to other information. DTTL believes that this is an appropriate approach.
- **Definitions** — Eliminating the definition of "material inconsistency" as previously drafted in ED-720 (2012), and allowing "inconsistency" to take its ordinary dictionary meaning. DTTL agrees with this decision. DTTL also believes, with the additional clarification described further below, that "annual report" is appropriately defined.
- **Reporting** — Including identifying in the auditor's report, the documents to be read and considered prior to the date of the auditor's report, as well as an identification of any material misstatements in such other information. DTTL considers the inclusion of a

¹ See the Explanatory Memorandum for the Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information; Proposed Consequential and Conforming Amendments to Other ISAs* ("Proposed ISA 720 (Revised)"), page 5.

separate section for other information to be an enhancement to the auditor's report; such inclusion will increase the communicative value of the auditor's report and be responsive to investor demands for further transparency.

DTTL does, however, have additional recommendations to further enhance and clarify the Proposal in the following areas:

1. Addressing the auditor's work effort required for other information that cannot be reconciled to the financial statements.

DTTL observes that the focus of Proposed ISA 720 (Revised) remains primarily on other information that is "intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements" (paragraph 15). The Proposed ISA 720 (Revised) provides less clarity, relating to financial and non-financial information, when it comes to:

(a) reading the other information that one has to "consider" for material inconsistencies between the other information and the auditor's knowledge, or

(b) remaining "alert" when reading the other information for material misstatements.

DTTL believes that there should be a clear expectation in the requirements of the Proposal for both what the auditor is expected to do relative to the information that is "intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements" and that information which is not.

2. Reconciling the "engagement period" concept described by the International Ethics Standards Board of Accountants' (IESBA) *Code of Ethics for Professional Accountants*, with the responsibility to address other information obtained after the date of the auditor's report. As drafted, DTTL believes that the procedures required by the Proposal would not extend the engagement period beyond the date the auditor's report is issued.

Both of these matters are further discussed in the Appendix, along with other recommendations included within DTTL's responses to the questions posed by the IAASB.

DTTL appreciates the opportunity to provide perspectives on these significant considerations with respect to the auditor's responsibilities in relation to companies' annual reports and the information contained therein beyond the audited financial statements. DTTL would be pleased to discuss this letter with the staff at your convenience. If you have any questions, please contact me via email (csabater@deloitte.com) or at +1 305 372 3143.

Very truly yours,



Carlos A. Sabater
Global Managing Director, Audit & Enterprise Risk Services
Deloitte Touche Tohmatsu Limited

APPENDIX

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

DTTL's responses to the detailed questions included in the IAASB's explanatory memo accompanying the Proposed ISA 720 (Revised) are set forth in this section. These responses provide additional context for the overall comments and include more specific and detailed observations relating to the various aspects of the Proposal. While the views of the Deloitte network have been collectively considered and incorporated into the overall commentary and the responses below, the views outlined herein should not be construed to be the views of any one particular member firm. If a specific member firm were to respond to a similar consultation by the standard setter in that member firm's jurisdiction, its response would also consider the financial reporting, corporate governance, and legal regimes specific to that jurisdiction.

1. Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application, and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

Stated objectives

The objectives formulated by the IAASB describe the meaning and intent of Proposed ISA 720 (Revised). DTTL also believes that these objectives are not inconsistent, and are also designed to assist the auditor in complying, with the relevant ethical obligations under the IESBA *Code of Ethics for Professional Accountants* that require the auditor to not knowingly be associated with information believed to contain a materially false or misleading statement.

Scope

Paragraphs 2 and 8

The final sentence of paragraph 2 states that Proposed ISA 720 (Revised) does not require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. However, the Proposal also requires that the auditor perform some level of procedures beyond those performed as part of the audit of the financial statements in order to achieve the objective of the Proposal. As a result, there is a lack of clarity as to what those additional procedures performed under the Proposal represent. The auditor's responsibilities, as stated in paragraph 8, "do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information." DTTL agrees with the statements in paragraphs 2 and 8, but also believes that there is a conceptual inconsistency between paragraphs 2, 8, and the procedures required under the Proposal. Minor modifications could be made to the Proposal to address the above described inconsistency and to improve the clarity. In order to better facilitate the auditor's understanding of the Proposal and the intended outcome as it relates to the objectives, DTTL recommends that certain paragraphs be re-ordered in the Scope section of the Proposal. Paragraph 8, due to its importance in understanding the scope of the ISA, should be inserted directly after paragraph 2. In addition, DTTL recommends that the following edits be made to paragraph 2:

2. This ISA is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this ISA are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ISA 200. The requirements in the ISAs are designed to enable the auditor to achieve the objectives specified in the ISAs, and thereby the overall objectives of the auditor. The auditor's opinion

on the financial statements does not cover the other information, nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. **Accordingly, the information obtained as a result of the limited procedures the auditor is required to perform under this ISA does not form part of the audit evidence necessary to form an opinion on the financial statements, nor do those limited procedures represent a separate assurance engagement.**

Paragraphs 3 and 11

There appears to be an inconsistency between the wording in paragraph 3 and paragraph 11 regarding the phrase “read and consider.” Paragraph 3 states that the auditor “read and consider” the other information, while paragraph 11 states that the auditor “read the other information” and “consider” is instead included as part of the work effort for each identified category. DTTL recommends that the wording in paragraph 3 be amended as follows:

3. This ISA requires the auditor to read ~~and consider~~ the other information **and, in so doing, consider whether the** ~~because~~ other information ~~that~~ is materially inconsistent with the financial statements or the auditor’s knowledge obtained during the course of the audit, **as any such inconsistencies** may indicate ~~that~~ that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor’s report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor’s report is prepared.

Paragraph 6

Proposed ISA 720 (Revised) imposes a responsibility on the auditor relating to other information, other than the reporting responsibilities, whether the other information is obtained by the auditor prior to, or after, the date of the auditor’s report; and it further states that these procedures “do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.” DTTL believes that additional clarity and guidance for the auditor are needed regarding how the responsibility to address other information obtained after the date of the auditor’s report should be applied as it relates to independence and the “engagement period” concept described by IESBA’s *Code of Ethics for Professional Accountants*, paragraph 290.30, an extract of which is noted below:

Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.

As the procedures required by ISA 720 (Revised) do not constitute a separate assurance engagement, DTTL also infers that these procedures would not extend the engagement period, including the independence requirements, beyond the date the auditor’s report is issued. Such guidance will become increasingly important in the situation where an auditor is no longer the continuing auditor and will also be encountered frequently with the upcoming mandatory audit firm rotation in various jurisdictions.

DTTL also notes that while the auditor’s responsibilities pertaining to other information obtained by the auditor prior to, or after, the date of the auditor’s report are clearly stated in the scope of the Proposal, this responsibility is not explicitly clear in the requirements section of the Proposal.

DTTL recommends including a requirement before paragraph 14 that states the following:

New requirement paragraph: The auditor shall apply the requirements in paragraphs 14 and 15 regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.

Definitions

DTTL believes that the definitions adequately describe the meaning of the terms used throughout the Proposal. However, DTTL believes that in certain instances the application guidance and other explanatory material do not fully explain the meaning of certain concepts embodied in the definitions.

Annual Report

The definition of *annual report* in paragraph 12(a) refers to “[a] document, or combination of documents.” The application guidance then provides examples of what is, or is not, typically considered part of an annual report (paragraphs A1 and A3). Essentially when a document listed in paragraph A3 is issued as part of the annual report (traditional printed form, combination of documents “packaged together,” or electronically) it is within the scope of the Proposal, and when it is not issued as part of the combination of documents that comprise an annual report, it is not considered other information, and is therefore not within the Proposal’s scope. This could cause confusion, and differing interpretations as to what constitutes other information subject to Proposed ISA 720 (Revised). DTTL believes that this, in turn, will result in diversity in practice and the unintended and inadvertent misapplication of the provisions of the Proposal. See the DTTL recommendation detailed below.

Further, paragraph A3 refers to reports being “issued separately.” When read in conjunction with paragraph A2, which clarifies how the annual report may be made available, DTTL believes that the phrase “issued separately” may not be clear and workable in the current electronic environment. For example, if a report addressing sustainability matters is “issued separately,” but such report contains hyperlinks to the annual report (as defined in the Proposal) or is combined in an electronic communication with the annual report, it is not clear whether or not such a report would be scoped into the requirements of this ISA.

DTTL recommends stating that if the documents are clearly distinguishable (either in the traditional printed form, combination of documents “packaged together,” or electronically), those documents should be considered as having being issued separately, even if these documents are issued at the same time. For example, DTTL believes the existence of hyperlinks within a document would not be enough of a connection to render the document containing the hyperlink to the annual report, to be part of the annual report within the scope of the Proposal.

Misstatement of the Other Information

Paragraph 12(b) defines a *misstatement of the other information* as existing “when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter).” DTTL believes that this definition may result in regulators in various jurisdictions expecting the auditor to evaluate compliance against a local regulatory framework that may have certain minimum disclosure requirements pertaining to other information.

DTTL requests that the application guidance clarify that the auditor is not reading the other information to evaluate such information against a local regulatory framework in a particular

jurisdiction. It should be clear that it is not the responsibility of the auditor to assess compliance against other local regulatory frameworks.

Further, DTTL believes that the application by the auditor of the phrase “including because it omits or obscures information necessary for a proper understanding of a matter” in paragraph 12(b) will be challenging to implement in practice. For example: A challenge may include where an entity highlights the positive aspects of its operations and results in the annual report (e.g., new stores being opened and the resulting growth in new store sales) and, while the entity does not exclude negative or unfavorable other information, the latter does not receive equal prominence in the annual report (e.g., little discussion relating to that fact that the results for the existing stores were flat or growing very slowly). DTTL recommends that there be more application guidance to assist the auditor in determining when an entity, by highlighting positive data points or trends, “crosses the line” into a misstatement of the other information by virtue of omission. DTTL does not believe that the Proposal should infer that the auditor has a responsibility to address completeness of the other information, and DTTL recommends that the Proposal should include application guidance to clarify this issue.

Requirements addressing the auditor’s work effort

The work effort as articulated in paragraph 14(a) and the related limited procedures in paragraph 15 are understandable; however, DTTL believes that there could be further clarity as to the auditor’s work effort as it relates to other types of information that are not readily reconciled to the financial statements.

As outlined in the Overall Comments section above, DTTL also believes that there needs to be an explicit statement regarding the auditor actions pertaining to paragraphs 14(b) and 14(c), as currently the work effort for these paragraphs is implicit in the requirements (which is in contrast to paragraphs 14(a) and 15). As drafted, the requirements in paragraphs 14(b) and 14(c) may result in an inconsistent work effort across audit engagements and within jurisdictions as there is substantial professional judgment involved. DTTL recommends that paragraph 15 be revised to incorporate wording relating specifically to paragraphs 14(b) and 14(c). See the following recommendation:

15. As the basis for the consideration in paragraph 14(a), the auditor shall perform limited procedures to evaluate the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements. **As the basis for the consideration in paragraphs 14(b) and 14(c), the auditor does not need to perform further procedures in order to satisfy the auditor’s responsibilities under this ISA.**

Further, DTTL recommends that there be additional application guidance regarding how to apply the auditor’s professional judgment in paragraph A30 insofar as deciding whether to refer to auditor documentation or inquiring of the engagement team or the component auditor in making the consideration required by paragraph 14(b). For example, DTTL believes that as (1) the size and complexity of the engagement, or (2) the number of components increase, the engagement partner may want to look at selected documentation or have discussions with the engagement team members (including the component auditors) as well as auditor experts (if applicable) involved in the audit engagement.

Paragraph 16 requires the auditor to perform other procedures to determine if there is a material misstatement in the other information or in the financial statements, or to determine if the auditor’s understanding of the entity and its environment needs to be updated. This language may create the perception that it is only the auditor’s responsibility to determine if a material misstatement exists,

even though it would be primarily management's responsibility to make this determination. DTTL notes that the application guidance in paragraphs A34-A38 provides further detail regarding management's actions. As a result, DTTL recommends including certain of the application guidance in paragraph 16, such that the redrafted requirement paragraph reads as follows:

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware of other information that appears to be materially misstated), the auditor shall discuss the matter with management, **request management to provide support for the basis of management's statements in the other information** and, **when appropriate, request management to investigate further the material inconsistency as it relates to the other information or the financial statements.** If necessary, **the auditor should** perform other procedures to determine whether...

Documentation

DTTL believes that clarification is needed for (1) the expectations regarding the documentation responsibilities of the auditor, and (2) the link between Proposed ISA 720 (Revised) and ISA 230, *Audit Documentation* ("ISA 230"). ISA 230 is intended to address documentation that is required to support the audit opinion, and it may not be clear that it also applies to the procedures performed and the evidence obtained relating to the Proposal. DTTL understands that it is difficult to document the concepts embodied in paragraph 14, namely "read," "consider," and "remain alert." DTTL has noted that ISA 230 paragraph A10 (emphasis added) may provide some direction for documenting the auditor's rationale when applying the provisions of paragraph 14, and could be incorporated into the Proposal as application guidance:

A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

The rationale for the auditor's conclusion when a requirement provides that the auditor "**shall consider**" certain information or factors, and that consideration is significant in the context of the particular engagement. ...

Further, DTTL believes that paragraph 24 should be focused on documenting the work effort of the auditor in addressing the requirements of this ISA and not on the retention of specific entity documentation. DTTL also believes that the requirement to retain the "final" version of the other information could be unduly onerous, and possibly result in multiple versions being retained even if there are only minor changes made to versions previously received. As a result, DTTL recommends that the reference to retaining the "final version of the other information" should be deleted from the requirement paragraph, and instead be placed in application guidance as something the auditor may wish to do.

Based on the preceding comments, DTTL recommends that paragraph 24 be amended as follows and that application guidance be provided to suitably expand and clarify the auditor's responsibilities:

24. The auditor shall retain ~~in the audit documentation the final version of the other information on which the auditor has performed the work~~ **that evidences how the auditor has complied with the requirements** under this ISA.

New application guidance paragraph: The audit documentation may include the final version of the annual report received from the entity and on which the auditor performed the work required by this ISA. The auditor is required by ISA 230, *Audit*

Documentation, to retain evidence to support the procedures performed in accordance with this ISA.

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

Once the work effort related to paragraphs 14(b) and 14(c) is further refined, DTTL believes that Proposed ISA 720 (Revised) is capable of being consistently interpreted and applied.

In addition, DTTL believes that since the definition of other information has been refined to include all financial and non-financial information in an entity's annual report, there is no need for the Appendix. Once the auditor has determined which documents comprise the annual report in accordance with paragraph 13(a), then all the other information contained in the annual report is scoped in for the purposes of applying the Proposal (whether these be amounts or other items). Therefore, DTTL recommends that the Appendix be deleted.

DTTL also noted two potentially inadvertent inconsistencies that should be corrected as follows:

- In paragraph 22, DTTL recommends adding an exception for a disclaimer of opinion. As currently drafted, paragraph A54 contradicts the requirement. DTTL notes that this issue may be further clarified as part of the IAASB's finalization of the reporting proposals.
- In paragraph A52, the last sentence of the illustrative example states "We have nothing to report regarding the remainder of the other information." This sentence seems equally applicable to the illustrative example in paragraph A49, but it is not included there. DTTL recommends adding the same sentence to paragraph A49.

DTTL also believes that there should be additional clarity as to the auditor's responsibility surrounding comparative other information that cannot be reconciled to the financial statements in the first year of the Proposal's implementation as well as when there has been a change in auditors.

3. Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

DTTL is supportive of the reporting requirements in paragraphs 21, 22, and 23. DTTL does, however, recommend that the explanatory material contained in paragraph A47, which clearly states the circumstances in which an auditor is not required to have a section in the auditor's report addressing other information, be elevated to "essential application guidance" and be included in paragraph 21 in order to lend more prominence to the situation where the auditor is not required to have an "Other Information" section in the auditor's report.

Whilst DTTL does understand that a balance needs to be maintained between incorporating too much detail regarding other information in the auditor's report, and the risk that the level of detail will overshadow the rest of the auditor's report, DTTL believes that it is very important to clarify the auditor's role with respect to other information and to bring transparency to the work performed by the auditor.

Therefore, DTTL believes that the description of the auditor's responsibilities with respect to the procedures performed pertaining to the other information should be expanded to more fully explain the work effort as reflected in paragraph 15 (revised above). DTTL believes that this language is necessary as the user may incorrectly assume a consistent level of work effort is performed for all the other information identified in the annual report.

It was also noted that the user may infer that the version of the annual report on an entity's website is the final version that the auditor used in performing the requirements of Proposed ISA 720 (Revised), absent any identification in the auditor's report, or legend on the annual report, to the contrary. Paragraph A16 indicates that "the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this ISA." DTTL concurs with the application guidance; however, DTTL recommends that the auditor's report language be amended to state that the annual report was received directly from the entity, so that the user is clear as to the source of the other information.

DTTL recommends the following language be added to the requirements in paragraph 21 to reflect the above recommendations and the related example in paragraph A48 (similar changes would be made to the examples in paragraphs A49 and A52):

21. When the auditor has obtained the final version of all or part of the other information **from the entity**, prior to the date of the auditor's report, the auditor shall include a separate section under the heading "Other Information", or another title if appropriate, in the auditor's report comprising the following matters: (Ref: Para. A47)

- (a) ...
- (b) ...
- (c) ...
- (d) **A statement that the responsibility of the auditor is also to perform limited procedures to evaluate the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements;**
- (e) **A statement that the auditor has not performed further procedures on the other information;**
- (f) A statement ...

A48. The following is an example of a statement in the auditor's report when the auditor has obtained the final version of all or part of the other information by the date of the auditor's report and has not identified a material misstatement of the other information, or has identified a material misstatement of the other information which has been corrected:

Other Information [or another title if appropriate, such as "Information other than the financial statements and auditor's report thereon"]

The other information obtained **directly from the Company** at the date of this auditor's report is the [information included in the X report, other than the financial statements and the auditor's report thereon].

We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon.

Our responsibility is to read this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our

knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. **Our responsibility is also to perform limited procedures to evaluate the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements. We have not performed further procedures on the other information.** If we determine that the other information is materially misstated, we are required to report that fact. We have nothing to report in this regard.

Consistent with the previous DTTL comment letter as it related to ED-720 (2012), DTTL continues to believe that management's responsibilities for the preparation of other information should be clearly articulated. The IAASB noted in the explanatory memorandum that management's responsibilities for the other information are "widely understood." However, DTTL believes that in the interest of transparency and the narrowing of any potential expectations gap, a statement relating to management's responsibilities for the other information should be made and that this can be addressed in the management responsibility section of the auditor's report. DTTL also believes this would be consistent with the other changes to the auditor's report being considered by the IAASB.

4. Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

Yes. DTTL agrees with the premise to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.