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Sylvia Smith

14 March 2013

Dear Sirs

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

We are pleased to have the opportunity to comment on the proposed International Standard on Auditing (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 exposure draft) issued by the International Auditing and Assurance Standards Board's (IAASB) in November 2012. We have consulted with, and this letter represents the views of, the KPMG network.

Overarching comments

As highlighted in the Explanatory Memorandum, we believe that the IAASB's aim in proposing to revise ISA 720 is to address the following three questions within the scope of the independent financial statement audit:

- What information and documents should be within the scope of the auditor's responsibilities?
- How to achieve greater transparency in terms of the auditor's responsibilities with respect to other information? and
- How to enhance the auditor's responsibilities with respect to the other information within the scope of the independent financial statement audit?

Scope

We recognize that there have been significant changes in the nature and extent of information included in corporate reporting relating to financial performance since ISA 720 was first released. We support the IAASB considering whether the auditor’s responsibilities with respect to other information are sufficient and “fit-for-purpose” in the context of today’s financial reporting environment.

Further, subject to our comments in our response to questions 2 and 3, we support the IAASB amending ISA 720 to clarify the type of information considered to be “other information” within the scope of the ISA. This includes expanding the definition of “other information” to include other information that accompanies the financial statements and the auditor’s report provided the primary purpose of this other information is to enhance users’ understanding of the audited financial statements.

The proposed definition of “other information” in the exposure draft includes other information that “accompanies the audited financial statements and the auditor’s report thereon and has a primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements *or the financial reporting process*” (emphasis added). We do not support including documents within the scope of ISA 720 that have a primary purpose of enhancing users’ understanding of the financial reporting process because the auditor’s report on the financial statements does not include assurance on the financial reporting process.

Transparency and reporting

We agree that the auditor’s responsibilities with respect to the other information should be more transparent, although, as we elaborate later under *Enhancing the auditor’s responsibilities*, we have some concerns with how the IAASB intends to achieve this.

We support the proposal to require the auditor’s report to describe the auditor’s responsibilities with respect to the other information. However, we believe that the description should clearly indicate the primary purpose of the procedures carried out by the auditor (i.e., credibility of the financial statements and auditor’s report). Further, we recommend that the auditor’s report also include a description of management’s responsibilities with respect to the preparation and presentation of the other information. These changes will enable users of the financial statements to put the auditor’s responsibilities and management’s responsibilities with respect to other information in perspective.

We also support identifying in the report the names of the documents that contain the other information. However, rather than requiring the auditor to identify the documents actually read, we recommend that the description of management’s responsibilities with respect to other information identify the documents agreed with the auditor to be within scope. In the event that certain documents are not available as at the date of the auditor’s report, we recommend that the auditor identify these documents in an ‘Other Matters’ paragraph in the auditor’s report consistent with ISA 706 *Emphasis of Matter Paragraph and Other Matter Paragraph in the Independent Auditor’s Report*. This will make the fact that certain documents were not available to be read as of the date of the report more transparent. It will also facilitate any revisions to the financial statements, other information and the auditor’s report that may need to be made when that other information is finally available and read by the auditor.

We have concerns with the proposal to state in the auditor's report that the auditor has not identified material inconsistencies in the other information. As we explain in our response to question 11, when the auditor has not identified material inconsistencies, the form of reporting proposed by IAASB is similar to negative/limited assurance in an engagement conducted in accordance with International Standards on Review Engagements. We are concerned that users will derive more assurance from such a statement than is intended, thus widening the expectation gap. Although our preference is that the auditor not be required to include this type of statement in the report, we recognize that IAASB may conclude it is appropriate to respond to the views of some users. In the event the IAASB decides to include this explicit statement in the report, it is important that the report also clearly explain the primary purpose of the procedures carried out by the auditor (i.e. credibility of the financial statements and auditor's report).

To summarize, we believe that the IAASB would meet its objective of providing greater transparency, without widening the expectation gap, if the reporting requirements were expanded to include:

- A description of management's responsibilities with respect to other information including the identification of the other information that is within the scope of the auditor's responsibilities;
- A description of the auditor's responsibilities with respect to other information, including the purpose of reading and considering such information (i.e. credibility of the financial statements and auditor's report); and
- When applicable, an 'Other Matters' paragraph consistent with ISA 706 that:
 - identifies the other information not made available to the auditor as at the date of the auditor's report; and
 - describes any unresolved matters relating to the other information that the auditor concludes should be brought to the attention of the users.

Enhancing the auditor's responsibilities

We agree it is appropriate to clarify that the auditor should read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. However, we believe that the auditor's primary objective for reading and considering the other information relates to the credibility of the financial statements.

We are concerned that the exposure draft may be interpreted as expanding the auditor's responsibilities to include the credibility of the other information. We arrive at this view when we consider the following proposed changes to ISA 720 in aggregate:

- The auditor's objectives refer to the auditor identifying that there may be a material inconsistency in the other information and identifying that the audited financial statements may be materially misstated without acknowledging that the likelihood that the auditor will identify a material inconsistency in the other information based on reading and considering the other information is much lower than the likelihood of identifying that the financial

statements may be materially misstated. We explain this concern more fully in our response to question 5.

- The proposed new definition of “inconsistency” in the other information is significantly broader than the common dictionary definition as it includes information that is “unreasonable” or “inappropriate” or “presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information”. Our concerns with this proposal are explained in our response to questions 6 and 7.
- The extensive application material on the single requirement to read and consider the other information extends beyond what one would normally expect to be covered by such a requirement. Our concerns are explained in our response to questions 8 and 9.

Conclusion

Whilst the objective of the IAASB is to stay within the scope of the independent financial statement audit, we are concerned that given the wide range of subject matters covered in other information, auditors are not in a position to identify inconsistencies, as defined in the exposure draft, simply by reading and considering other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit. We are concerned that in many instances auditors may have nothing to report simply because the other information deals with matters which an auditor does not need to have an understanding of in order to render an opinion on the financial statements. This will widen the expectation gap, as opposed to narrowing it as envisaged by the IAASB.

We are also concerned that auditors’ reaction to the possibility of an expectation gap may vary – some may simply report as required on the basis that it is factually correct, others may decide they are unable to report without expanding the procedures performed in respect of other information. Either approach, in our view, will not be in the public interest and does not reflect costs and benefits appropriately.

There have been significant changes in the nature and extent of information included in corporate reporting relating to financial performance. This will only continue given the developments in areas such as integrated reporting and the activities of the International Integrated Reporting Council. We also believe that users would benefit from having auditors provide assurance on other information.



KPMG IFRG Limited

Exposure Draft ISA 720 – *The Auditor's Responsibilities Relating to Other Information in Documents
Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*
14 March 2013

We therefore recommend that revisions to ISA 720 focus on clarifying and providing more transparency as to the auditor's current responsibilities with respect to other information as part of the financial statement audit and avoid making changes that give the impression the auditor's responsibility has been expanded to address the credibility of the other information.

We also recommend that the IAASB undertake a separate project to explore the benefits and costs of having auditors provide assurance on other information based on defined criteria.

The Appendix to this letter includes our response to the questions posed in the Explanatory Memorandum. It also elaborates on the issues that have given rise to our overarching comments provided above.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

KPMG IFRG Limited

KPMG IFRG Limited

cc: Jean Blascos, KPMG

Appendix – Responses to specific questions posed

Overall considerations and scope

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?

We support the IAASB considering whether the auditor's responsibilities with respect to other information are sufficient and fit-for-purpose in the context of today's financial reporting environment. We believe that users would benefit from extending the auditor's current responsibilities with respect to other information. However, we do not believe that this can be meaningfully achieved through ISA 720.

A number of the changes proposed in the exposure draft, when considered in aggregate, could be interpreted to have the effect of extending the auditor's responsibilities with respect to other information beyond the credibility of the financial statements to the credibility of the other information itself. This, in our view, goes beyond what can be reasonably undertaken by the auditor within the scope of a financial statement audit because the scope and subject matter covered by other information is often much broader than the information addressed in audited financial statements.

Our view is based on the following factors, considered in aggregate:

- The auditor's objectives in paragraph 8 of the exposure draft require the auditor to respond appropriately when: (i) the auditor identifies that there may be a material inconsistency in the other information; or (ii) the auditor identifies that the audited financial statements may be materially misstated.
- While we agree that auditors should respond appropriately when faced with the above circumstances, we are concerned that the exposure draft does not provide sufficient background with respect to the two objectives. For example, it does not clearly explain that the more diverse the subject matter covered by the other information, and the further removed it is from the financial statements, the lower the likelihood that the auditor will be in a position to identify a material inconsistency in that other information.
- Our concern is heightened when one considers the auditor's objectives in the context of the significant work effort included in the application material to support the auditor's "consideration" of other information (paragraphs A28 to A43) and the fact that the definition of "inconsistency" has been expanded from "other information that contradicts information contained in the audited financial statements" in the extant ISA 720 to include information that is "incorrect, unreasonable or inappropriate, or is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information."
- Further, when the auditor has not identified material inconsistencies, the exposure draft requires the auditor to explicitly state this in the auditor's report. We support expanding ISA 720 to provide more transparency in the auditor's report regarding the auditor's responsibilities with respect to other information. But we are concerned that, in view of the wide range of subject matters covered in the other information, an auditor may state that they have nothing to report simply because the

other information deals with matters which an auditor does not need to have an understanding of in order to render an opinion on the financial statements. This proposed reporting requirement, when considered together with changes that appear to expand the scope of the auditor’s responsibilities and the proposed change in the definition of “inconsistency”, runs the risk of further aggravating the expectation gap.

Over the years, there have been significant changes in the nature and extent of information included in corporate reporting. This will only continue given the developments in areas such as integrated reporting and the activities of the International Integrated Reporting Council. We strongly believe that auditors have a role to play in enhancing the credibility of such other information and that users would benefit from auditor involvement. However, it is important to avoid confusing a desire to add credibility to other information with the financial statement audit. We believe that the most effective and transparent way of strengthening the auditor’s responsibilities with respect to other information is through an assurance engagement that focuses specifically on that information.

In this context and in order to put the auditor’s role in perspective, we recommend that revisions to ISA 720 focus on clarifying and providing more transparency as to the auditor’s responsibilities with respect to other information as part of the financial statement audit and avoid making changes that give the impression the auditor’s responsibility has been expanded to address the credibility of the other information.

Our responses in this Appendix to the questions posed by IAASB in the explanatory memorandum provide details as to how this can be achieved. Our more significant recommendations relate to:

- Making revisions to the definition of “inconsistency” as defined in paragraph 9(a) so that it is more in line with a commonly understood dictionary definition of “inconsistency”. For example it could be defined as ‘information that contradicts the audited financial statements or the auditor’s understanding of the entity and its environment acquired during the course of the audit’; and
- Making revisions to the auditor’s objectives so that it is clear that the auditor’s primary focus is the credibility of the audited financial statements and the auditor’s report but recognizing that the auditor has a responsibility to respond appropriately if he/she becomes aware of a material misstatement of fact or believes there may be a material inconsistency in the other information.
- Supporting the above changes by:
 - reintroducing the definition of “material misstatement of fact” from extant ISA 720; and
 - including a reminder in the application material of the auditor’s responsibilities with respect to misleading information under the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants (the IESBA Code).
- Eliminating unnecessary detail in the application material on the work to be performed by the auditor in “considering” the information and emphasizing that the further removed the subject matter in the other information is from the audited financial statements, the less the work effort required by auditors.

We also recommend that the IAASB undertake a separate project to explore the benefits and costs of having auditors provide assurance on other information based on defined criteria.

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?
3. Do respondents 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?

We generally agree with the IAASB’s proposal to broaden the scope of the proposed ISA to include documents that accompany the audited financial statements provided their primary purpose is to provide commentary to enhance the users’ understanding of the audited financial statements. However, we have concerns in the following areas:

- Definition of other information

The definition of “other information” in 9(c)(ii) indicates that other information that accompanies the audited financial statements and the auditor’s report would be within the scope of ISA 720 when it has “a primary purpose of providing commentary to enhance the users’ understanding of the audited financial statements *or the financial reporting process*” (emphasis added). Although the auditor performs work on understanding the financial reporting process as part of a financial statement audit, the auditor’s responsibilities do not extend to providing assurance on the financial reporting process. Thus, we do not believe it is appropriate for the scope of the exposure draft to include documents that have a primary purpose of enhancing the users’ understanding of the financial reporting process.

- Interpretation of initial release

Paragraph 10 requires the auditor to discuss with management the nature and timing of the documents that are expected to be *issued in connection with the initial release* and determine whether these documents are within the scope of ISA 720 (emphasis added).

In today’s environment, financial statements and other information are not restricted to hard copy. They may be made available to users on a website. Also, entities often produce more than one type of document to include/accompany audited financial statements in order to address the needs of more than one group of user or to meet regulatory requirements in more than one jurisdiction.

It would be helpful if the application material in paragraphs A4 and A5 could be expanded to explain how the concept of *issued in connection with the initial release* would be applied to some of the more common scenarios that exist today e.g. when information is released electronically and/or in more than one jurisdiction. In particular, it would be helpful if the exposure draft provided guidance as to what can be considered to be a reasonable time period for a document to be considered to be issued in connection with the initial release of the financial statements.

- Other considerations

It is important that the auditor obtain management’s agreement and acknowledgement as to what information is considered to be “other information” and when that information will be made

available to the auditor. We recommend that the proposed standard make reference to the auditor obtaining this agreement from management when agreeing the terms of the engagement and the responsibilities of management under ISA 210 *Agreeing the Terms of Audit Engagement*. Further, we recommend that the auditor should be required to obtain written representations from management in order to evidence that management has:

- fulfilled its responsibilities in relation to other information; and
- provided or intends to provide all relevant other information to the auditor as agreed.

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?

We do not agree with inclusion of securities offering documents within the scope of the standard, even if this is done in the limited circumstances described in the exposure draft, because the primary purpose of a securities offering document is not to provide commentary to enhance the users’ understanding of the audited financial statements.

We recommend that the auditor’s responsibilities with respect to securities offering documents that include audited financial statements be specifically scoped out of ISA 720. We also recommend that these responsibilities should be addressed in a separate standard dealing specifically with offering documents.

Objectives

- 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?**

The auditor’s objectives in paragraph 8 of the exposure draft require the auditor to respond appropriately when: (i) the auditor identifies that there may be a material inconsistency in the other information; or (ii) the auditor identifies that the audited financial statements may be materially misstated. While we agree that auditors should respond appropriately when faced with the above circumstances, we are concerned that the exposure draft does not provide sufficient background with respect to the two objectives. For example, it does not clearly explain that the more diverse the subject matter covered by the other information, and the further removed it is from the financial statements, the lower the likelihood that the auditor will be in a position to identify a material inconsistency in that other information.

Our concern is heightened when one considers that the definition of “inconsistency” has been expanded from “other information that contradicts information contained in the audited financial statements” in the extant ISA 720 to include information that is “incorrect, unreasonable or inappropriate, or is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.”

The wording of the auditor’s objectives coupled with the expansion of the definition of “inconsistency” and the significant work effort included in application material to support the auditor’s “consideration” of other information (paragraphs A28 to A43) lead us to conclude that the exposure draft has significantly expanded the auditor’s responsibilities beyond the credibility of the financial statements to include the credibility of the other information. We do not believe that expanding the auditor’s responsibility in this way is appropriate because the scope and subject matter covered by other information is often much broader than the information addressed in audited financial statements.

As we noted in our overarching comments, we believe that users would benefit from an expansion of the auditor’s responsibilities with respect to other information. However, we do not believe that this can be effectively achieved through ISA 720.

In terms of the specific questions posed by IAASB, with respect to question 5(a), we also believe that the phrase *‘in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit’* would be broadly understood. However, we are concerned with the lack of clarity of the term “auditor” in that phrase. We believe that the responsibility for performing work on the other information should rest with the audit engagement team, with the engagement partner having overall responsibility. The application material in the exposure draft does not clarify this. We therefore recommend that the application material clarify that the “auditor’s understanding” relates to that obtained by the audit engagement team during the course of audit.

With respect to question 5(b) above, we agree with requiring the auditor to read and consider the other information for consistency with the audited financial statements since this focuses the auditor’s responsibilities on the credibility of the financial statements based on the understanding acquired during the audit. However, the cumulative changes described above lead one to conclude that the exposure draft has significantly expanded the auditor’s responsibilities beyond the credibility of the financial statements to include the credibility of the other information.

Definition of an “inconsistency” in the other information

- 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?**
- 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?**

We have significant concerns with the proposed new definition of “inconsistency” in the exposure draft as it is broader than the common dictionary definition. It includes information that is “unreasonable or inappropriate, or presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information”.

The key question here is what benchmark the auditor is required to use in judging whether the other information is unreasonable or inappropriate. Unless the other information is dealing specifically with matters addressed in the financial statements, it is not clear how the auditor is in a position to identify such matters without expanding the scope of the financial statement audit.

We are concerned that users will not fully understand the definitions of “inconsistency” and “material inconsistency”, but will nevertheless derive some assurance on the other information from the auditor’s report. This may aggravate the expectation gap. To address the above concerns, we recommend the following changes to the exposure draft:

- Replace the definition of “inconsistency” in the exposure draft with one that is more aligned with the dictionary definition. For example:

Inconsistency in the other information – Information that contradicts the audited financial statements or the auditor’s understanding of the entity and its environment acquired during the course of the audit.

- Reintroduce the definition of “material misstatement of fact” from extant ISA 720.
- Include a reminder in the application material that the auditor has the following responsibility under the IESBA Code:

110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

- a) Contains a materially false or misleading statement;
- b) Contains statements or information furnished recklessly; or
- c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

- Revise the auditor’s objectives so that it is clear that the auditor’s primary focus is the credibility of the audited financial statements and the auditor’s report but recognizing that the auditor has a responsibility to respond appropriately if he/she becomes aware of a material misstatement of fact or believes there may be a material inconsistency in the other information.

To achieve this, the auditor’s objectives may be revised as follows:

The objectives of the auditor, having read and considered the other information are to:

- Respond appropriately when, in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit the auditor:
 - identifies that the audited financial statements may be materially misstated; or
 - becomes aware of a material misstatement of fact or believes that there may be a material inconsistency in the other information.

Nature and extent of work effort

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

We are supportive of taking a principles-based approach to determining the extent of work to be undertaken with respect to other information. However, we are of the view that the work effort set out in paragraphs A28 to A43 of the exposure draft, in particular the work effort relating to information that is directly reconcilable financial information (A37c) and to the remaining other information (A37d), is extensive, and an inappropriate interpretation of what is meant by “*considering*” the other information.

Whilst the procedures are drafted as application material, we believe they set an expectation on the nature and extent of work effort for the auditor. They reflect a desire to push the auditor further along the spectrum of implicitly obtaining assurance on the other information. Further, paragraphs A28 to A43 include a number of procedures that are similar to procedures performed in an assurance engagement; for example, checking reconciliations prepared by management, re-performing calculations for mathematical accuracy, etc.

To make the guidance in the proposed standard more in line with a principles-based approach, our preference is that the detailed procedures in these paragraphs be deleted. At a minimum, we recommend that the application material be amended to clarify that the further removed the other information is from the audited financial statements, the less the work effort required by the auditor.

To illustrate, paragraph A43 includes example procedures that may be performed by the auditor in respect of other information that is not the same as information in the audited financial statements or that is not directly reconcilable to the audited financial statements. Given the nature of the information, we believe the suggested procedures in A43 are extensive because they involve obtaining management’s reconciliation of the currency effect to the underlying accounting records and comparing significant items within the analysis to the audit documentation. If IAASB believes it would be helpful for the final standard to include example procedures, we recommend that this paragraph be revised to suggest that the auditor may consider the currency effect on growth in revenue on the basis of his/her knowledge of the movement in exchange rates during the year and the entity’s foreign currency exposure obtained as a result of performing the financial statement audit.

Responding when the auditor identifies that the audited financial statements may be materially misstated**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?**

When the other information is obtained prior to the date of the auditor’s report, paragraph A49 suggests that the auditor should revise the risk assessment if, as a result of reading and considering the other information, the auditor identifies new information that has implications for the auditor’s prior understanding of the entity and its environment. We believe that, in this circumstance, it is more appropriate to refer the auditor to paragraph 11 of ISA 500 *Audit Evidence* because it requires the auditor to determine whether modifications or additions to audit procedures are necessary to resolve the matter and to consider the effect of the matter, if any, on other aspects of the audit. We believe the requirement in ISA 500.11 is broader and more encompassing than revising the risk assessment, which is only one aspect of the consideration.

Paragraph A59 states that if the other information within the scope of ISA 720 was not available at the date of the auditor’s report and it becomes available subsequently, the auditor is not required to update or re-issue the auditor’s report to refer to such other information. We agree with this statement so long as the auditor does not become aware of matters affecting other information available after the date of the auditor’s report. The auditor’s responsibilities, in such circumstances, are addressed in paragraphs A55 and A56 of the exposure draft. To ensure the standard is clear, we recommend that paragraph A59 include a cross-reference to paragraphs A55 and A56.

Reporting**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?

(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?

We support the proposal to require the auditor’s report to describe the auditor’s responsibilities with respect to the other information. However, we believe that the description should clearly indicate the primary purpose of the procedures carried out by the auditor (i.e. credibility of the financial statements and auditor’s report). Further, we recommend that the auditor’s report also include a description of management’s responsibilities with respect to the preparation and presentation of other information. These changes will enable users of the financial statements to put the auditor’s responsibilities and management’s responsibilities with respect to other information in perspective.

We also support identifying in the report the names of the documents that contain the other information. However, rather than requiring the auditor to identify the documents actually read, we recommend that the description of management’s responsibilities with respect to other information

identify the documents agreed with the auditor to be within scope. In the event that certain documents are not available at the date of the auditor's report, we recommend that the auditor identify these documents in an 'Other Matters' paragraph in the report consistent with ISA 706. This will make the fact that certain documents were not available to be read as of the date of the report more transparent. It will also facilitate any revisions to the financial statements, other information and the auditor's report that may need to be made when that other information is finally available and read by the auditor. This is discussed in more detail below.

We support requiring the auditor's report to include a description of any unresolved matters relating to the other information that the auditor concludes should be brought to the attention of users. To enhance transparency, we believe that this information should be provided in an 'Other Matters' paragraph in the report consistent with ISA 706. However, we have concerns with the proposal to state in the report that the auditor has not identified material inconsistencies in the other information. We are concerned that users may derive more assurance from such a statement than is intended, thus widening the expectation gap.

Although our preference is that the auditor not be required to include this type of statement in the report, we recognize that IAASB may conclude it is appropriate to respond to the views of some users. In the event the IAASB decides to include this in the report, it is important that the report also clearly explains the primary purpose of the procedures carried out by the auditor (i.e., credibility of the financial statements and auditor's report).

To summarize, we believe that the IAASB would meet its objective of providing greater transparency, without widening the expectation gap, if the reporting requirements were expanded to include:

- A description of management's responsibilities with respect to other information including the name of the documents containing other information agreed with the auditor to be within scope;
- A description of the auditor's responsibilities with respect to other information, including the purpose of reading and considering such information (i.e. credibility of the financial statements and auditor's report); and
- When applicable, an 'Other Matters' paragraph consistent with ISA 706 that:
 - identify the other information not made available to the auditor at the date of the auditor's report; and
 - describe any unresolved matters relating to the other information that the auditor concludes should be brought to the attention of the users.

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?

For the avoidance of doubt we do not believe that auditors are providing any assurance with respect to other information. However, we are concerned that the proposed reporting requirements, taken together with the other changes proposed in the exposure draft, could potentially lead users to derive assurance on other information when none is intended thereby widening the expectation gap.

As we discussed in our overarching comments and in our responses to many of the questions set out above, we believe that users would benefit from having auditors provide assurance on other

information. There have been significant changes in the nature and extent of information included in corporate reporting relating to financial performance. This will only continue given the developments in areas such as integrated reporting and the activities of the International Integrated Reporting Council.

We strongly believe that auditors have a role to play in enhancing the credibility of other information. However, it is important to avoid confusing a desire to add credibility to other information with the financial statement audit. Accordingly, we recommend that any revisions to ISA 720 focus on clarifying and providing more transparency as to the auditor’s current responsibilities with respect to other information and avoid making changes that give the impression the auditor’s responsibility has been expanded to address the credibility of the other information. We also recommend that the IAASB undertake a separate project to explore the benefits and costs of having auditors provide assurance on other information based on defined criteria.