

March 18, 2013

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

Submitted via email: jamesgunn@iaasb.org

Re: Comments on the International Auditing and Assurance Standards Board's Exposure Draft ISA 720 (Revised), The Auditor's Responsibility Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and The Auditor's Report Thereon

Dear Mr. Gunn:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Auditing Standards and International Accounting and Auditing Committees deliberated the exposure and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (212) 755-4482, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,


Gail M. Kinsella
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON THE INTERNATIONAL AUDITING AND ASSURANCE
STANDARDS BOARD'S EXPOSURE DRAFT**

**ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITY RELATING TO OTHER
INFORMATION IN DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED
FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT THEREON**

March 18, 2013

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New York State Society of Certified Public Accountants

Comments on

The International Auditing and Assurance Standards Board's Exposure Draft ISA 720 (Revised), The Auditor's Responsibility Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and The Auditor's Report Thereon

The New York State Society of Certified Public Accountants appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or Board) Exposure Draft of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (the proposed ISA). Overall, we support those elements of the proposed ISA that enhance a user's understanding of (1) the work performed by the auditor, (2) the documents the auditor read, and (3) the nature of the work performed such that it is clear that no assurance is provided based on the limited nature of the work performed. While we support improvements in how and what the auditor communicates to users of financial statements, we have significant concerns that the proposed ISA, particularly as it relates to broadening the scope and expanding performance requirements, will have unintended consequences, the more significant of which is increasing the expectation gap.

As set out in our response to the *Invitation to Comment on Improving the Auditor's Report*, dated October 2, 2012, we believe that any changes to auditor reporting should narrow the expectation gap and focus on objective rather than subjective criteria. Our responses to the specific questions posed in the proposed ISA are set out below and are consistent with these overarching concepts.

Scope of the Proposed ISA

- 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?**

Yes, we agree with the need to strengthen the auditor's responsibilities with respect to other information; however, we have concerns about how the proposed ISA has expanded the scope to include documents that accompany the audited financial statements and the auditor's report thereon as we believe it will lead to inconsistent application by practitioners and confusion on the part of users about which documents are in scope. For example, paragraph A14 explains that documents referred to as integrated reports may or may not be within the scope of the Proposed

Standard depending upon their purpose and the circumstance of their issuance. However, integrated reports that include Corporate Social Responsibility (CSR) reports or Sustainability reports, in addition to the audited financial statements, may not have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements, and it is unclear how the auditor would determine whether such CSR or Sustainability reports are or are not within scope. Additionally, because such integrated reporting is still an evolving practice, we believe integrated reports should not be within the scope of the Proposed Standard at this time.

Moreover, the expansion of scope will likely result in additional audit costs, the benefit of which is unclear. The current requirement is to read other information, which is defined as "financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law or regulation or custom, *in a document containing* [emphasis added] audited financial statements and the auditor's report thereon." The expansion of what is in scope to "accompanying documents," which is defined as a document that is issued "in connection with the initial release" and "has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process," will likely result in the auditor reading and considering a larger number of documents containing "other information," the consequence of which will be an increase in audit hours to read and consider this information appropriately.

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 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 with reservations. Broadening the scope of the proposed ISA to include documents that are issued in connection with the issuance of the audited financial statements and the auditor's report thereon when the accompanying document has the primary purpose of providing commentary to enhance the users' understanding of the audited financial statements is, on its face, appropriate and in the public interest. However, we are concerned about (1) the consistent application of such an expansion of scope, (2) whether users will understand which accompanying documents the auditor devoted attention to, and (3) whether the benefits to users will outweigh the additional costs. For this reason, we think the standard needs to be very clear about (1) how management and the auditor determine what is in scope, (2) the timing of the release of documents in scope, (3) how the auditor describes the work done (or to be done) on in-scope documents, and (4) the auditor's responsibility for documents that were not available at the date of the audit report and the manner of auditor reporting on such documents.

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?

No, we do not believe the concept of initial release is clear, particularly as it relates to non listed entities. In the example provided in the Exposure Draft, the audited financial statements are issued first to the entity's bank and then subsequently released to shareholders. However, for a private entity, we are unsure how this dating is meant to differ from the date the financial statements are issued as defined in ISA 560, *Subsequent Events*. If the concept of initial release is retained, we believe additional clarity is needed and examples should be provided of how such a concept would be implemented in a private company engagement.

- 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 believe that documents included within an initial public offering should be in scope if they meet the criteria for accompanying documents as set out in the proposed standard. For those procedures that are duplicative, we believe that the proposed standard could address such procedures by indicating that if such procedures are required by laws or regulations or standards established at the national level, such procedures suffice for purposes of the ISA. We have not identified what types of procedures might conflict with procedures that the auditor may otherwise be required to perform pursuant to national requirements, but if such requirements exist, we believe the proposed standard should provide for auditor communication through the auditor's report to explain that certain required ISA procedures were not performed as the procedures contained within national requirements were considered sufficient.

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?**

Overall, we believe that the objective of the proposed ISA is appropriate. However, we recommend that the phrase “in light of the auditor’s understanding...” be changed to “within the context of the auditor’s understanding...” to more clearly state the objective. We believe that the phrase “within the context of” is a more concrete and discernible alternative and less prone to misinterpretation or confusion to the auditor and users of financial statements. Additionally, the phrase “in the context of” provides a more distinct phrasing that we believe is better suited for translation purposes.

Further, the term “consider” is somewhat vague in the context of an auditing standard and susceptible to a wide range of interpretations by users of the financial statements as well as the auditor. We suggest using the phrase “read within the context of the auditor’s understanding,” as an alternative, which would serve to link the overarching principle-based requirement to the list of possible procedures and guidance in the application material.

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?

No, we believe the proposed definition of inconsistency, which includes the concept of omissions, will be a difficult concept to implement, and may be interpreted very broadly by the auditor and users, resulting in inconsistent application and misunderstanding by users. We provide the following suggestions by topic.

- **“Omission” wording deleted or further clarified**

The proposed application guidance, paragraph A28, describes the matters of which the auditor obtains an understanding during the course of the audit. These include: relevant industry, regulatory, and other external factors; the nature of the entity; the entity’s selection and application of accounting policies; the entity’s objective and strategies; the measurement and review of the entity’s financial performance; and the entity’s internal control. We believe it will be very difficult to determine what an “omission” would be, given the limited guidance within the standard and the subjective nature of the auditor’s acquired understanding. Further, given the nature of the work performed on the other information, such that the auditor reads the other information within the context of the audit of the financial statements, it would be unreasonable to expect the auditor to assess the completeness of the other information.

We propose that the words “omits or” be deleted from the definition of inconsistency (see 9(a) (ii) on page 20 of the Exposure Draft) and in the Glossary of Terms (see page 39 of the Exposure Draft). The revised definition, paragraph 9 (a) (ii), would be as follows: (deletions in strikethrough text)

...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 phrase “obscures information” is a concept with which auditors are familiar and would be able to determine if any material inconsistency existed between the other information and the understanding the auditor acquired during the course of the audit.

- **Prospective Nature – limited to information directly obtained in the audit of the financial statements**

Proposed application guidance, paragraph A29, states that the auditor’s understanding of an entity and its environment acquired during the audit also encompasses the understanding of matters that may be prospective in nature. We believe that the auditor’s responsibility with respect to other information of a prospective nature should be limited directly to that information which affects disclosures and amounts recorded in the financial statements (such as related to cash flows associated with impairment testing or pension disclosures), including situations in which the auditor has performed procedures relating to whether the entity can continue as a going concern.

- **User Economic Decisions – clarification suggested**

We are not sure that it is appropriate to correlate a material inconsistency with users’ economic decisions or even if this should be a responsibility of the auditor. If the basis of measurement of an inconsistency is whether it may influence a user’s economic decision, it is unclear how that evaluation could possibly be made by the auditor in an objective or consistent manner. In addition, the auditor’s responsibility for other information as it relates to social issues, which may be included within other information, is unclear. We propose that a material inconsistency be defined in a similar manner with extant ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Document Containing Audited Financial Statement*, which is defined as “other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.”

Further, a misstatement of fact is defined in extant ISA 720 as “other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements;” we believe this concept should be retained.

7. Do respondents believe that users of auditor’s 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 are concerned that users will not understand that the term “inconsistency” relates to information that is incorrect, unreasonable, or inappropriate, or is presented in a way that omits or obscures information. We believe such a definition differs from its common usage.

It is also not reasonable to believe that readers of the auditor’s report are in the position to determine the nature or extent of the auditor’s understanding of the entity and its environment. For example, auditors may not necessarily have the knowledge about some or all of the specific programs and merits discussed in CSR reports, and may or may not have sufficient information to assess whether or not such information is inconsistent with their understanding of the entity and its environment.

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?**

Yes, we believe that the principles-based approach as discussed and presented in the explanatory memorandum is appropriate. However, we think that there is a “disconnect” between the notion of an overarching principles-based approach and the procedural nature of the examples of procedures set out in the application guidance. To address this concern, we recommend an explicit statement in paragraph A37 that explains that the procedures listed are examples of types of procedures that may be performed based on the auditor’s professional judgment using the factors listed in paragraph A36 to determine which procedures would be appropriate. Reiterating that the application of judgment also has a place in informing the auditor’s work effort is necessary to fully realize the principles-based aim of the standard.

Further, we agree that 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 work effort set out in the Proposed Standard needs clarification so that it relates to the work performed for the audit and not beyond. There is a risk that the procedures described in the application guidance may lead a practitioner to perform more procedures than would have been otherwise required for purposes of expressing an audit opinion on the financial statements. It is important to explicitly state that the work effort for other information should not extend beyond those actions necessary to render an audit opinion, so that the procedures do not experience “scope creep” and jeopardize the cost/benefit proposition set out in the explanatory memorandum.

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 these examples are helpful, but are concerned that they may become *de facto* requirements or overly prescriptive checklists. Similar to our response to Question 8, we recommend adding clarifying language that emphasizes the use of professional judgment in determining the potential range of qualitative and quantitative information under the purview of ISA 720. For example, in place of “this list is not intended to be exhaustive,” we recommend “this list represents examples of potential sources of qualitative and quantitative financial information that may be included in other information. The auditor applies professional judgment in determining examples other than or in addition to these examples.”

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?

Yes, we agree that the proposed guidance clearly explains the auditor’s responsibility when the auditor discovers that their prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete.

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?

No, we do not believe that the terminology 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. We understand that there is a strong demand from investors and other users of financial statements to associate auditors with other information that relates to the audited financial statements; however, we are concerned that the requirement in the Proposed Standard to “read and consider other information in light of our understanding of the entity and its environment acquired during our audit” is unclear and that some users may incorrectly infer a level of auditor assurance is provided.

Paragraph A57 states:

As part of our audit, it is our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information in [specify the document(s) containing the other information, e.g., the entity’s annual report for the year ended December 31, 20X1] (“Other Information”) and to report whether we have identified material inconsistencies in the Other Information. We have not identified material inconsistencies in the Other Information. However, we have not audited or reviewed the Other Information and accordingly do not express an audit opinion or a review conclusion on it.

We are of the opinion that this language is not only unclear, it is confusing. First, the use of the term “consider” is problematic because, in addition to our concerns noted above in response to question 5, it is used extensively in auditing literature to describe procedures an auditor may perform, and as such, the term “consider” may be construed to provide some level of audit evidence. Further, the paragraph explains that “as part of our audit,” we performed certain procedures with respect to the “Other Information,” and we believe that the use of this phrase may be misconstrued by some users as providing some level of assurance regardless of the statement at the end of the paragraph that we do not express an audit opinion or a review conclusion.

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?

No, we do not believe that any level of assurance is provided with respect to the other information based on the nature and extent of work performed as set out in the Proposed Standard, and this should be clearly communicated to users so that there is no misunderstanding

about the extent and nature of work performed. However, if users require some level of assurance, we suggest the development of a separate attestation standard that is based on established criteria for other information.

Request for General Comments

- **Effective Date**

We believe that the IAASB should consider coordinating the effective date of this Proposed Standard with the effective date of the auditor reporting project to address user needs as fully as possible and avoid a piecemeal approach to making enhancements to auditor reporting.