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

14 March 2013

Dear Mr. Gunn,

Re: Exposure Draft: 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”

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your invitation to comment on the Auditor’s Responsibilities Relating to Other Information.

As explained in our letter dated 8 October 2012 with respect to the Invitation to Comment on Improving the Auditor’s Report, the financial crisis intensified concerns about the effectiveness of the audit process as well as the public’s understanding of that process. Key stakeholders and legislators, including the US Public Company Accounting Oversight Board (PCAOB), the European Commission and financial statement users, have expressed a desire for more information regarding information contained in documents released with the financial statements (hereafter referred to as “other information”). It is important that the profession seeks to address those concerns in a measured and timely manner, to enhance confidence in the audit process and ultimately the capital markets.

In forming our responses to this Exposure Draft, we focused our responses on major themes we believe to be pervasive and important, as follows:

- 1) Management, first and foremost, has the responsibility for communicating information about the entity to users of its financial statements; auditors should not be the original source of this information.
- 2) It is important that any changes to auditor reporting result in enhancing audit quality.
- 3) Any changes to auditor reporting should serve to lessen the expectations gap, not widen it. Thus care needs to be given to reporting information about the entity that is subjective in nature and prone to varying interpretation.

- 4) Finally, the benefits of additional procedures and reporting on “other information” should outweigh any additional costs added to the audit process to effect additional reporting.

Overall, while we continue to support further transparency in auditor reporting with respect to “other information” in accordance with extant ISA 720, we do not support the significant expansion in the scope and auditor performance requirements in this proposed revised ISA. We believe that enhancing auditor reporting by providing more transparency with regard to the responsibility the auditor has for “other information” under extant ISA 720 is a more appropriate and cost beneficial way to satisfy users’ needs. As such, we propose revising the auditors’ report on the financial statements to include the following:

- 1) A clear description of the auditor’s responsibilities for “other information.”
- 2) An identification of the “other information” that was addressed by the auditor.
- 3) A clear statement as to whether the auditor identified any unresolved material inconsistencies between the “other information” and the audited financial statements, or any unresolved material misstatements of fact.
- 4) A clear statement that the auditor did not audit or review the “other information” and as such, the auditor does not provide any opinion or review conclusion on the “other information.”

Responses to specific questions

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 believe that extant ISA 720 is appropriate and that the proposed expansion of the documents that the auditor would be required to consider as other information, as well as the auditor’s procedures directed at such other information, would result in incremental costs that would exceed any benefits. Our primary concern is the proposed expansion of the auditor’s responsibilities to documents “accompanying” the audited financial statements. In some cases other relevant information may be “included in” documents containing audited financial statements and in other cases such information may instead “accompany” audited financial statements. Expanding the definition of *other information* to include information that accompanies audited financial statements would place the auditor in the unreasonable situation of having to respond to such information by performing certain procedures called for by the proposed revised ISA when the auditor may not have even been aware of the information which accompanied the audited financial statements. As such we believe that the proposed revised ISA should only require the auditor to perform procedures with respect to other information of which the auditor is aware.

Extant ISA 720 addresses the auditor’s “association” with other information in documents containing audited financial statements and whether that other information is consistent with the audited financial statements. While we understand that certain stakeholders desire assurance on the completeness, accuracy and reliability of other information, we believe

that this can be accomplished by such work and reporting being addressed by an ISAE 3000 type report as the subject of a separate engagement.

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?

See our response to Question 1. Additionally we believe that the scope of the proposed revised ISA 720 is unacceptably broad as it includes documents that have a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process (see paragraph 9(c)) of the proposed revised ISA 720). The scope is overly subjective with respect to the users' understanding and creates a likelihood of broadly differing interpretations between auditors thus creating an unnecessary diversity in practice as well as a likelihood of broadly different expectations between auditors and users of the information.

Further, we believe that the expansion in scope created by paragraph A8 of the proposed ISA may actually widen the expectation gap that the IAASB is trying to narrow. Paragraph A8 indicates that information on an entity's website could fall within the scope of the proposed ISA in contrast to extant ISA 720 which excludes online information from its scope. If online other information is identified by the auditor in the audit report, but subsequently updated online by management, users may incorrectly infer that the auditor has read and considered the updated information. Additionally, online other information on the entity's website might also include links to websites not controlled by the entity or other documents outside of the auditor's responsibility under the proposed ISA. Users may draw an incorrect inference that the auditor read and considered such information through identification of the source document in the auditor's report.

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?

Yes, we find the concept of initial release clear but believe that the clarity of the concept could be enhanced by stating specifically within the proposed ISA that the "initial release" date may be different from the date the financial statement are issued as defined in ISA 560.

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?



Assuming that national regulatory requirements would continue to be followed, we believe that to serve the public interest, a minimum base line of procedures to be performed by auditors across different jurisdictions should be established by including securities offering documents in the scope of the proposed ISA when financial statements and the auditor's report thereon are included, or incorporated by reference, in the securities offering document.

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?

Notwithstanding our objections to expanding the scope of the auditor's responsibility for other information as proposed in this Exposure Draft, we 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 and that the requirements and guidance in the proposed ISA help guide the auditor in understanding what it means to read and consider other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. However, we do not believe that objectives of the proposed ISA are appropriate overall because the definition of the term "material inconsistency" is too broad as explained further in our response to Question 6 below.

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

No, we do not agree that the definitions of the terms of "inconsistency" including the concept of omissions and "a material inconsistency" in the other information are appropriate.

We believe that the subjectivity of the proposed definition of inconsistency could result in user misunderstanding and actually widen the expectation gap. The proposed ISA states that an inconsistency in other information exists when it is incorrect, unreasonable or inappropriate; or omits or obscures information in its presentation (Paragraph 9(a)). Under extant ISA 720, an inconsistency is defined as other information that contradicts information contained in the audited financial statements (Extant ISA, Paragraph 5(b)). We believe the subjectivity of the definition would make it difficult to provide consistency in the determination of what other information is considered "unreasonable or inappropriate" or

“presented in a way that omits or obscures information.” Requiring the auditor to determine whether other information is presented in a way that “omits or obscures information” could also inappropriately convey to financial statement users that the auditor would be responsible for evaluating the completeness of the other information. Lastly, the proposed ISA indicates that an inconsistency could be material if it could reasonably be expected to influence non-economic decisions by users, such as changes in public policy. The determination of whether an inconsistency could influence non-economic decisions by users is highly subjective and may result in inconsistencies in auditor reporting. Accordingly we recommend the following definition of inconsistency:

“An inconsistency in the other information exists when the other information is inconsistent with the information in the audited financial statements or with the auditor’s understanding of the entity and its environment acquired during the course of the audit. An inconsistency in the other information may be due to an inaccurate statement of facts, the omission of facts or the presentation of facts in a biased manner.”

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 believe that users of auditors’ reports will not understand that an inconsistency relates to an inaccuracy in the other information as described in the definition for the reasons cited above in our response to Question 6. We believe that the required reporting language with respect to other information will result in users assuming that auditors have performed significant procedures with respect to other information when in fact, the auditor may not have performed extensive procedures, thus widening the expectation gap. As such, we recommend the following revisions to the wording:

“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 documents ...] (“Other Information”) and to report whether we have identified material inconsistencies ~~in~~ between the Other Information, the audited financial statements, and our understanding of the entity and its environment. We have not”

As drafted, the existing illustrative statement could be read to imply that the auditor is assessing whether there are inconsistencies between different items of information within the Other Information.

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?



Notwithstanding the significant concerns we have expressed with regard to the proposed ISA 720, yes, we believe that a principles-based approach to the work effort 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?

See below.

(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?

With respect to the categories of *other information* in paragraph A37 and the guidance for the nature and extent of the work effort for each category, we believe that the proposed procedures are not appropriate as they constitute additional audit procedures. The paragraph implies that the auditor would obtain assurance on information on which the auditor is not required to opine or issue a review conclusion. For example, the procedure with respect to directly reconcilable financial information for the auditor to obtain a reconciliation from management and (a) agree the items in the reconciliation to the audited financial statements and (b) determine whether the calculations within the reconciliation are arithmetically accurate is clearly an additional audit procedure designed for the auditor to obtain assurance and would result in a significant expansion of scope from the extant ISA 720 requirement to read and consider the other information.

As another example, paragraph A37(b) proposes that for “qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements, considering the significance of any differences in wording used and whether such differences imply different meanings.” We believe this proposed procedure is inappropriate as it essentially directs the auditor to make very subjective judgments about the intent of the preparer if differences in wording between the audited financial statements and the other information is used. Because of the overly subjective nature of this proposed procedure, the application of the procedure and resulting evaluations made by auditors would vary widely in practice.

We believe that since the auditor’s opinion does not extend to other information, that any procedures (required or implied) beyond reading and considering is an unnecessary and inappropriate expansion of the scope of the audit.

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

Yes. The examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful, although as stated previously, we do not believe that the auditor should be required to perform procedures beyond reading the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.

10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?

Yes, we believe the proposed requirements are clear regarding 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.

11. With respect to reporting:

(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?

No, we do not believe that the proposed audit report terminology is clear and understandable enough for the reasons set out in our answer to questions 5 and 7, above.

(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 it is clear that the conclusion proposed to be included in the auditor's report is clear with respect to conveying that there is no assurance being expressed with respect to the other information. We believe that the auditor has expressed a form of assurance by indicating whether any material inconsistencies have been identified.

We also believe that the auditor's report should include a statement that the other information is the responsibility of management.

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

We believe that the procedures to be performed, as proposed in this revised ISA, do not afford the auditor a basis for providing or expressing assurance on the other information. As expressed in our response to the previous question, we believe that the conclusion in the auditor's report with regard to other information should be clearer about the fact that no assurance is being provided on the other information.

As stated in our response to question 1, if users of the financial statements and other information want the auditor to provide assurance on the other information, we believe that this can be accomplished by such work and reporting being addressed by an ISAE 3000 type report as the subject of a separate engagement.



We would be pleased to discuss our comments further with members of the IAASB or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsmi.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jean M Stephens'.

Jean M Stephens
Chief Executive Officer
RSM International

A handwritten signature in black ink, appearing to read 'Robert Dohrer'.

Robert Dohrer
Global Leader - Quality and Risk
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