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

**Re: Request for Public Comment: Exposure Draft on 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***

Dear Mr. Gunn,

BDO International Limited (BDO) is pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB or Board) 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* (the Proposed Standard). We remain committed to supporting efforts to enhance the communicative value of financial reporting, as previously set out in our comment letter to the IAASB on October 8, 2012 on the Invitation to Comment, *Improving the Auditor's Report*, and believe it is appropriate for the IAASB to explore ways to improve reporting as it relates to other information at this time. Our comments below reflect our views on how improvements in financial reporting as it relates to the auditor's responsibilities for other information may be accomplished in a way that provides clarity, thereby serving to narrow the expectation gap.

Overall, we support the elements in the Proposed Standard that enhance the user's understanding of the nature of the work performed by the auditor and the information to which the auditor devoted attention so that it is clear that no assurance is provided based on the limited nature of the work performed. However, as described below, we have significant concerns about (1) expansion in scope from the extant standard to documents *accompanying* audited financial statements and the auditor's report thereon, (2) extension of the objective of the auditor to reading and considering the other information *in light of the auditor's understanding of the entity and its environment*, (3) broadening the nature and extent of work to be performed, and (4) the manner of reporting, as described in the Proposed Standard. We believe that these proposed revisions to extant ISA 720 will result in unintended consequences, such that the anticipated benefits described in the Explanatory Memorandum to the Proposed Standard - improved audit quality, increased value of the audit, and narrowing the expectation gap - will not be realized.

We encourage the IAASB to engage in an expanded dialogue with users of financial statements to determine whether they require some sort of expanded auditor role with respect to other information, rather than auditor association, as provided for under extant ISA 720. If users require this expansion, we support the development of a standard that would provide for a separate attestation engagement based on an established set of criteria as it relates to other information. In that regard, we believe that in conjunction with the development of an attestation standard, a framework should be established by accounting standards setters to

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assist management, as the responsible party, in its preparation of other information. This holistic approach would properly align the roles of management and auditors and promote a more consistent presentation of the information.

Our comments have been developed in consultation with the member firms of our network and represent the collective view of our international organization. They are provided below in response to the specific questions posed in the Exposure Draft.

#### 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?

We agree that additional transparency would be useful in communicating to users the auditor's responsibility for other information. However, it is not clear whether users perceive a need to expand the auditor's responsibilities with respect thereto. As stated in our opening remarks, if users expect or require assurance on other information, rather than auditor association as under the extant standard, we would support the development of a separate attestation standard to meet that need.

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?

We do not believe that documents issued after the audit report date should be subject to the provisions of this standard for a variety of reasons, the most significant being the confusion that will likely arise about which documents were read and considered after that date. Moreover, including such subsequently issued documents in the Proposed Standard is inconsistent with ISA 560, *Subsequent Events*, which provides that an auditor has no obligation to perform audit procedures after issuance of the financial statements. However, if users believe it is important to specifically address documents and other information issued after the date of the auditor's report, we believe this could be considered in a project for a separate attestation engagement, as described in our opening comments.

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 believe additional clarity is needed around the concept of initial release if it is retained in a final standard. For example, if a private entity provides the audited financial statements and auditor's report thereon first to a bank, as described in paragraph A4 of the Proposed Standard, it is unclear how the auditor would be able to determine when the financial statements are later distributed to "the group of users for whom the auditor's report is prepared," since the auditor of a private entity does not generally monitor the distribution of the auditor's report once it has been delivered to the client.

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 initial public offering documents should be scoped out of the Proposed Standard, as we believe there are laws, regulations, and protocols (e.g., comfort letters to underwriters) set out at the national level that address such matters.

## 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?

We believe the proposed objectives have been broadened significantly from extant ISA 720 such that we have serious concerns about whether “reading and considering” the other information would be able to achieve them. In that regard, we do not believe the proposed objectives are appropriate or clear. Under extant ISA 720, the objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor’s report thereon include other information that could undermine the credibility of those financial statements and the auditor’s report. We believe such an objective is appropriate and consistent with the work performed on the other information. The Proposed Standard, on the other hand, broadens the objective through expanding the auditor’s responsibility beyond a comparison between the other information and objective information (i.e., the audited financial statements) to a more imprecise and subjective comparison between the other information and the auditor’s understanding of the entity and its environment acquired during the audit. While we recognize that the auditor’s understanding of the entity and its environment is fundamental to the risk assessment process and provides the context for the performance of the audit, we believe the subjective nature of the proposed objective is likely to result in inconsistent implementation and reduced clarity for users, thereby hindering the IAASB’s stated goal to increase transparency of the audit process.

While we recognize that extensive application guidance is provided in the Proposed Standard to help explain the work effort required by the term “consider,” we believe the nature and extent of the work required to do this remains vague. We do not believe the intent of the IAASB was to provide a list of procedures (see paragraphs A37 and A43) that should be performed on all engagements; however, there is no overarching principle to guide the auditor in determining the procedures that would be sufficient as part of considering other information and, as a result, there is a risk that the list of procedures will become a de facto standard. Further, the use of the term “consider” is used in many other auditing standards, and we are concerned that the term as used in the Proposed Standard may lead to confusion of the meaning of the term elsewhere in the ISAs.

In addition, while we understand that auditors are not required to seek to enhance their understanding of the entity and its environment beyond that required for purposes of the audit, we are concerned that paragraph 4 of the Proposed Standard, which states that the auditor is required to read other information that may extend beyond their area of expertise when such information is contained in accompanying documents, may be misinterpreted as expanding the auditor’s responsibility for this type of 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?

We do not believe the definitions of the terms “inconsistency” including the concepts of omissions and “a material inconsistency” in other information are appropriate. Instead, we believe the terms “inconsistency” and “material misstatement of fact” as used in extant ISA 720 should be retained. Our concerns with these terms within the Proposed Standard are as follows:

The first part of the definition of an inconsistency explains that “an inconsistency exists when the other information contains information that is incorrect, unreasonable or inappropriate.” While it is clear when other *quantitative* information may be incorrect, it is less clear when this relates to whether *qualitative* information may be unreasonable or inappropriate in the context of the auditor’s understanding of the entity and its environment acquired during the course of the audit. These characteristics of other information are imprecise and, therefore, extremely subjective. Therefore, it would be impractical in many cases for an auditor to assess whether other information was unreasonable or inappropriate with a sufficient degree of certainty or consistency. Further, the subjective nature of what may or may not be unreasonable or inappropriate could result in differences of opinion between management and the auditor, based on their unique perspectives, each of which may have reasonable validity. We do not believe the time spent in trying to resolve any such appropriately diverse views would be beneficial to users.

The second part of the definition of an inconsistency explains that it exists when “other information is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.” Requiring such a determination would significantly go beyond the auditor’s existing responsibility, since it would involve assessing information that may not necessarily have a direct relationship to the audited financial statements and/or may be outside of the auditor’s normal level of expertise. Moreover, without the benefit of established criteria, there would be no consistent basis in which to make this assessment.

The last part of the definition states that “an inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor’s report is prepared taken on the basis of the audited financial statements and the other information as a whole.” We believe it is unreasonable to expect the auditor to be able to evaluate this criterion in most cases, given the infinite variety in types of other information that might be presented and the various factors that might influence the economic decisions of users. Similarly, we believe the guidance in paragraph A3, which explains that in the public sector an inconsistency could be material if it could reasonably be expected to influence non-economic decisions of the intended users, such as changes in public policy and direction, is an excessively subjective determination. We believe extant ISA 720 better explains a material inconsistency in terms of the audited financial statements as “an inconsistency that raises 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.”

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?

Since the definition of an inconsistency is beyond the common use of the term, we do not believe that users will understand its meaning in this context. Moreover, as stated in our response to question 6, we believe the definition of an inconsistency in the Proposed

Standard has a number of drawbacks, and, therefore, we believe the definition of an inconsistency, as set out in extant ISA 720, is more appropriate.

#### 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?

In general, we support a principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information; however, such an approach needs to be sufficiently clear for consistent application in similar circumstances. In that regard, we have concerns about the meaning and use of the term "consider," as described in our response to question 5 above.

We agree that the categories of other information in sub-paragraph A37 (a) and (c) of the Proposed Standard and the related guidance for the nature and extent of work effort for each of these categories are appropriate.

We are concerned, however, regarding sub-paragraph A37 (b), because it requires the auditor to assess whether the description of qualitative financial other information conveys the same meaning as the qualitative disclosures in the financial statements, specifically requiring the auditor to consider the significance of any differences in wording used and whether such differences imply different meanings. Since such an assessment is not based on sufficiently objective criteria and could result in different conclusions by different auditors in similar circumstances, we do not believe it is appropriate for an auditor performance guideline.

We also have concerns about sub-paragraph A37 (d), because of its link with the auditor's understanding of the entity and its environment acquired during the course of the audit (see our response to Question 5). In addition, that sub-paragraph, as described more fully in paragraphs A41- A43, implies a work effort beyond that necessary to express an audit opinion on the financial statements. For example, paragraph A43 explains that in considering other quantitative information, the auditor may obtain an analysis of financial information from management (even if it was not otherwise obtained for audit purposes) and consider significant items within the analysis in light of the entity and its environment as reflected in the audit documentation.

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

We believe the examples of qualitative and quantitative information included in the Appendix are helpful, but believe that the introduction to the Appendix should be given appropriate context to ensure that the list does not become a "check the box" exercise of items within scope, regardless of the specific circumstances of the audit. In addition, certain of the examples do not seem to be directly related to financial matters (i.e., general descriptions of the business environment and outlook, overview of strategy, and a summary of significant operating developments by country).

## 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?

The guidance in the Proposed Standard relating to the auditor's response when the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete is clear and appropriately references other ISAs that provide additional guidance that the auditor would need to consider in such a circumstance.

## 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 do not believe that the terminology "read and consider in light of our understanding of the entity and its environment acquired during the audit" or "material inconsistencies" will be clearly or consistently understood by users of the auditor's report.

The words within the phrase "read and consider" have a common understanding within the English language. However, the use of the term "consider" within the context of the Proposed Standard has a specific meaning that differs significantly from its common use and, therefore, its meaning may not be clearly understood by users of the auditor's report. Accordingly, we believe it is important that the term "consider" be defined in the standard, and that this definition be included within the auditor's report, in an appendix to the report, or on a website of a regulatory or professional body for access by users. For example, the final Standard might explain that the term means that in conjunction with reading the other information within the context of the financial statements and the auditor's report thereon, the auditor needs to be alert to material inconsistencies and material misstatements of fact.

We agree with the conclusion that states "the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it." However, we are concerned that the requirement for the auditor to address whether, based on reading and considering the other information obtained, they have identified material inconsistencies in the other information or material misstatements of fact may be perceived by users as providing negative assurance, which is not supported by the extremely limited procedures performed.

While we understand that some jurisdictions (for example, the U.K. and South Africa) already have this type of negative assurance included in their auditor's report, which may be appropriate to those particular jurisdictions, we nevertheless believe the objective of an explicit conclusion can be achieved by describing the auditor's existing responsibilities under extant ISA 720 with respect to inconsistencies and misstatements of fact and explaining what the ISA requires the auditor to do if an inconsistency is identified, including disclosure of the matter in the auditor's report if it is not resolved. The absence of any disclosure of identified matters would then constitute an implicit conclusion on the other information.

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 do not believe that any level of assurance should be expressed with respect to other information, based on the proposed level of auditor involvement. As mentioned above, if users of the financial statements and the auditor's report thereon require some form of assurance, we believe that a separate standard setting project should be established.

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We have no additional comments relating to Preparers and Users, Developing Nations or Translations. With respect to the effective date, we believe there is merit in coordinating it with the overall auditor reporting project, so as to avoid a piecemeal approach. We believe such an approach will be more effective in demonstrating the improvements being made in the way auditors communicate the nature and results of their work.

We believe it is important that management, audit committees, and user groups are appropriately educated about the changes to reporting that may result from this and the other auditor reporting projects. In this regard, we encourage the Board to continue to engage with the organizations that represent these groups, so that they clearly understand the important enhancements that are being made to provide transparency in auditor reporting sufficient to meet their needs.

We appreciate the opportunity to comment on the Proposed Standard and hope that our comments and suggestions will be helpful to you as you deliberate ways to enhance auditor reporting.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited

Wayne Kolins  
Global Head of Audit and Accounting