



March 12, 2013

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Gunn,

Re: Proposed ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the Exposure Draft of proposed ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon* (ED-ISA 720). In developing our response, we considered comments provided by our stakeholders who showed a strong interest in this topic. AASB staff held many face-to-face meetings with various stakeholder groups across Canada, and considered exposure draft response letters. Appendix 1 indicates the groups with whom staff met, and the respondents to the Exposure Draft. In our response, “Canadian stakeholders” refers to those who provided us with input.

Structure of our response

Our response contains the following:

- *General Comments.* This section sets our reactions to pervasive matters related to ED-ISA 720.
- *Comments on particular aspects of the ED.* These comments cover specific matters related to the proposed ISA, including scope, objectives and related work effort, and reporting. For each of these matters, we first set out key viewpoints expressed by Canadian stakeholders. These are followed by the AASB’s own conclusions on each topic, having heard what stakeholders had to say.
- *Our responses to the specific questions in the Exposure Draft (Appendix 2).* When appropriate, our responses are cross-referenced to relevant material contained in the main body of our letter.

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General Comments

1. The AASB supports the efforts of the IAASB to consider the value an auditor can add to the other information. We agree that strengthening the auditor's responsibilities with respect to the other information would be in the public interest provided that:
 - the changes to ISA 720 would not widen the expectations gap or otherwise cause confusion among users of the auditor's report; and
 - the benefits of extending the auditor's responsibilities would clearly exceed related costs.

We have a pervasive concern that neither of the above caveats will be met by the proposals in ED-ISA 720 which would, in effect, imbed within the financial statement audit an unspecified type of separate engagement related to other information. Considerations regarding this matter are set out below.

Potential for increased expectations gap and confusion

2. In an environment where many public companies operate globally, it seems likely that many users may misunderstand the auditor's association with other information as proposed in ED-ISA 720, despite the caveats in the proposed communication by the auditor. This misunderstanding is likely to result because (i) the proposals in ED-ISA 720 are very different from other national standards that have long been in effect and (ii) certain documents that fall within the scope of the proposed ISA 720 (Revised) would be audited in some circumstances but not in others. To illustrate these points, we describe in paragraphs 3 and 4 some circumstances that apply in Canada, but that may illustrate issues likely to apply in other jurisdictions as well.
3. Canadian markets are highly integrated with those of the U.S. For example, there are approximately 350 Canadian reporting issuers that are also registrants of the U.S. Securities and Exchange Commission ("cross-listed entities"). Canadian securities regulations permit the auditors of cross-listed entities to report under the U.S. Public Company Accounting Oversight Board (PCAOB) standards. PCAOB's auditing standard (AU) 550, *Other Information in Documents Containing Audited Financial Statements*, does not require the auditor to perform any procedures to corroborate the other information or to report on the other information. If Canada were to adopt revised ISA 720 as proposed in the Exposure Draft, there would be two very different approaches to the other information, potentially causing significant confusion.

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4. Further, Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) of companies listed on a Canadian stock exchange must file with securities regulators certifications on the effectiveness of internal control over financial reporting (ICFR). Such certifications would be within the scope of proposed ISA 720 and the auditor would be expected to read and consider them. For cross-listed entities in Canada, CEO/CFO certifications of internal control must be audited, often as a part of an integrated financial statement/ICFR audit. As a result, there will likely be confusion regarding the nature and extent of the auditor's involvement with CEO/CFO certifications, with increased likelihood of the auditor's communication under proposed ISA 720 (Revised) being viewed as an indication that the auditor performed a similar level of work on the ICFR to that in an integrated audit.

Relative benefits of ED-ISA 720 proposals

5. Extensive consultations with Canadian stakeholders indicate that many question whether there is a need to change the auditor's responsibilities with respect to the other information. A number of Canadian stakeholders pointed out, for example, that attestation standard (AT) 701, *Management Discussion and Analysis*, developed by the PCAOB, is seldom applied in the U.S. The AASB's view is any required procedures with respect to the other information that go beyond those necessary to support the auditor's opinion on the audited financial statements be driven by actual demand in the marketplace. That is, if regulators do not require the entity to, or the entity does not voluntarily, engage the auditor to perform procedures to provide assurance or comfort on the other information, then mandating the auditor to perform such procedures in an auditing standard would not be appropriate.

AASB's recommendations

6. The AASB encourages the IAASB to co-ordinate its efforts on the auditor's responsibilities relating to the other information with other bodies internationally. For example, for the reasons stated above, it is particularly important for Canada that there be consistency between the international and U.S. standards.
7. In addition, in the AASB's view, rather than expanding the scope of ISA 720, adding value by increasing the auditor's involvement with the other information can be best achieved through the development of a separate engagement standard to deal with services on the other information. This separate engagement standard should be undertaken only if the auditor is engaged to provide assurance on the other information. The standard should also include requirements relating to agreeing the terms of the engagement and appropriate reporting to reduce potential confusion

regarding the scope as well as the nature and extent of the auditor's work efforts. Additional benefits of developing a separate engagement standard to deal with value-added services on the other information include:

- Improved clarity of the auditor's report – Since the other information will be reported on separately, the auditor's opinion on the audited financial statements would not be obscured by the auditor's conclusions on matters unrelated to the financial statements.
- Broader application – The separate engagement standard can deal with, for example, an interim Management's Discussion and Analysis (MD&A) that accompanies the interim financial statements reviewed by the auditor.

If the IAASB agrees with this approach, then ISA 720 (Revised) could appropriately be focused on the financial statement audit, and not on providing assurance on the other information.

COMMENTS ON PARTICULAR ASPECTS OF ED-ISA 720

Proposed Scope

Canadian Stakeholder Viewpoints

General agreement with broadening the scope to include accompanying documents

8. Most Canadian stakeholders agree that broadening the scope of extant ISA 720 to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate. In Canada, securities legislation requires documents such as the MD&A, which is meant to complement and supplement the audited financial statements, to be filed separately from (but simultaneously with) the audited financial statements.

Concerns regarding initial release

9. The majority of Canadian stakeholders find the concept of initial release to be confusing. Paragraph 9(b) states that "initial release occurs when the audited financial statements and the auditor's report thereon for a reporting period are **first** made generally available..." The word "first" seems to imply that there is only one date of initial release. However, the wording "in connection with the initial release" in paragraphs 9(c) and A5 suggests that the auditor must in fact be concerned with multiple release dates. This seems to make the obligation for an auditor to read and consider documents too open-ended.

10. Many Canadian stakeholders also pointed out that, despite the proposed guidance in paragraph A27, the concept of initial release contradicts the premise in paragraph 10 of ISA 560, *Subsequent Events*, that the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. Stakeholders acknowledge that limiting the scope of ISA 720 (Revised) to documents obtained by the auditor prior to the date of the auditor's report could potentially result in entities arbitrarily delaying the release of documents until the auditor has dated the report to avoid any auditor involvement with the documents. Nonetheless, stakeholders hold the view that the issue of entities arbitrarily delaying the release of documents is irrelevant as long as the auditor has obtained sufficient appropriate evidence to support his or her opinion on the financial statements as at the date of the auditor's report.

Excluding securities offering documents from the scope of ISA 720 (Revised)

11. The majority of Canadian stakeholders are of the view that securities offering documents should be excluded from the scope of ISA 720 (Revised) to avoid duplication and confusion that would likely result if auditors are required to comply with both the national requirements and ISA 720 (Revised). One Canadian stakeholder suggested that ISA 720 (Revised) include securities offering documents within its scope, but permit jurisdictions with national requirements to opt out of this provision.

AASB's Conclusions

Concept of initial release

12. Consistent with the views of the majority of Canadian stakeholders, the AASB has significant concerns regarding the concept of initial release. To address these concerns, the AASB suggests the following:

- The concept of "issued by the entity in connection with the initial release" should be eliminated from the ISA or, at minimum, clarified. The concept, in our view, is confusing and results in an inappropriate number of documents potentially being included in the scope of ISA 720 (Revised).
- The only information that should be within the scope of ISA 720 (Revised) is that which is available as at the date of the auditor's report. Application material could be developed to provide guidance that, if a substantially completed draft of a document is made available to the auditor prior to the date of the auditor's report and the final document is expected to be available before the issuance of the audited financial statements and the auditor's report thereon, it would be considered to be a document made available as at the date of the auditor's report. In such a case, the auditor may:

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- perform procedures on the substantially completed draft of the document prior to the date of the auditor's report; and
 - compare the substantially completed document to the final version prior to the issuance of the audited financial statements and the auditor's report thereon.

A substantially completed document would include, for example, the penultimate draft sent to the Board of Directors for approval.

- For other information that is not available before the date of the auditor's report, ISA 720 (Revised) should state that the auditor is not required to perform any procedures on that information under the ISA. However, the auditor may be required by relevant ethical requirements or other professional standards to perform procedures on such other information to avoid being associated with false or misleading information. ISA 720 (Revised) could state that the procedures in the ISA may be applied, adapted as necessary under the circumstances, for this purpose.

Securities offering documents

13. ED-ISA 720 correctly states that the auditor's responsibilities relating to securities offering documents are generally addressed through laws and regulations and/or professional standards established at the national level. In Canada, for example, we have a standard that deals with an auditor's consent to the use of a report of the auditor included in an offering document. Consistent with the views of the majority of Canadian stakeholders, the AASB is of the view that inclusion of securities offering documents in the scope of ISA 720 (Revised) would result in duplication and confusion if auditors are required to comply with both the Canadian standard and ISA 720 (Revised).

14. Also, ED-ISA 720 contemplates scoping in securities offering documents in the context of an initial public offering. Therefore, auditors who have had no prior experience with audits of public companies and have resigned as auditor after the entity has become public, might nonetheless be required to perform procedures in an offering document. However, practice in the field of securities offerings requires professional expertise and knowledge beyond that required to practice as the auditor of a private entity. Some auditors may choose not to be involved with an offering of securities to the public. It is also possible that an auditor does not carry insurance or licensing that permits him or her to act in connection with an offering of securities. The AASB is concerned that including securities offering documents within the scope of ISA 720 (Revised) would inappropriately compel such auditors to perform procedures on offering documents even

though they do not have the necessary competence or the required licensing to do so.

Proposed Objectives and Related Work Effort

Canadian Stakeholder Viewpoints

Disagreement with increased emphasis on the other information

15. The majority of Canadian stakeholders expressed significant concerns about the proposed increased emphasis on identifying and addressing matters in the other information. A small number of Canadian stakeholders expressed agreement with the proposed objectives and related work effort if the application of ISA 720 (Revised) is limited to certain entities such as public interest entities or large listed entities. Still others indicated that the concerns expressed apply to all entities and limiting the application of ISA 720 (Revised) would not resolve those concerns.

16. Canadian stakeholders are also concerned that the increased emphasis on the other information would result in auditors being compelled to perform procedures on matters of which they have little or no knowledge and would therefore have no sound basis for challenging what management has stated regarding such matters. For example, a mining company may choose to expense its exploration costs but its MD&A profiles geological information and related cash flow projections that the auditors have not dealt with, and were not required to deal with, in the course of the audit of the financial statements. In addition, Canadian stakeholders expressed the view that many communications for public companies are based in law and the auditor is not expected to have a legal expert's understanding of that law. Legal counsel for a public company, rather than the auditor, is in the best position to advise the entity on the other information.

Lack of criteria for applying the concept of "inconsistency"

17. The definition of "inconsistency" includes information that is unreasonable or inappropriate and information that is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed. A small number of Canadian stakeholders expressed agreement with the proposed definition. However, the majority expressed significant concerns regarding the lack of criteria against which to evaluate whether a statement is unreasonable or inappropriate, or whether the presentation omits or obscures information necessary to properly understand the matter being addressed. For example, it is unclear as to whether commonly used assertions such as "we had another great year" would constitute an unreasonable or inappropriate statement in some

circumstances, and if so, what those circumstances would be. Canadian stakeholders also noted that the application and other explanatory material dealing with the definition of “inconsistency” (paragraphs A2-A3 of ED-ISA 720) provides no guidance on what would constitute “information that is unreasonable or inappropriate, or presented in a way that omits or obscures information.” Canadian stakeholders suggested that specific guidance in this area should be included in ISA 720 (Revised).

18. Due to the lack of criteria referred to above, it would be very difficult challenge management on anything other than an identified untrue statement of fact (as acknowledged in paragraph A46 of ED-ISA 720). As long as it is debatable as to whether a statement in a document such as the MD&A constitutes a material inconsistency as defined in ED-ISA 720, management would likely refuse to make any changes, since such changes would often need to be approved by the Board of Directors, the entity’s lawyers, investor relations department, and other parties.

Inappropriate work effort on remaining other information

19. Canadian stakeholders generally agree with the categories of information set out in paragraph A37 of ED-ISA 720. However, they disagree with the nature and extent of proposed work effort due to, for example, the frequent need to meet tight regulatory filing deadlines. The view of many Canadian stakeholders is that a more pragmatic approach to work effort consists of:
- Agreeing numbers that are meant to be the same as those on the audited financial statements; and
 - Reading the document and responding only if the auditor becomes aware of a statement that is inconsistent with the audited financial statements or the auditor’s knowledge as a result of the audit of the financial statements (i.e., a “stumble across” approach).
20. In addition, many Canadian stakeholders find other aspects of the example procedures to be problematic. For example, paragraph A43 of ED-ISA 720 makes references to involving a component auditor to look into proposed changes in tax law in a foreign jurisdiction. Proposed changes in foreign tax law usually have little or no impact on an entity’s historical financial statements.

AASB’s Conclusions

Expectations gap and lack of criteria

21. The AASB shares the concerns expressed by Canadian stakeholders relating to auditors being required to perform procedures on other information that

is unrelated to the audited financial statements. This issue is particularly significant to us as Canada has approximately 2,000 publicly listed entities, each of which has a market capitalization or total assets, or both, of less than CDN \$ 10 million. Many of these companies are in the mineral exploration or technology/bio-technology research and development business. These businesses typically provide a great deal of technical information in their MD&As such as detailed geotechnical data and descriptions of biological processes after genetic modification, which auditors would not have addressed in the course of their audit of the financial statements. A preliminary scan of a sample of MD&As from this sector indicates that such information often constitutes half, or more, of the entire content of the MD&A. It would not be in the public interest to give users the perception that auditors have read, understood, and are in agreement with, this information as it is clearly beyond the knowledge of most auditors and not within the scope of an audit under ISAs.

22. The AASB also shares concerns raised by Canadian stakeholders relating to the lack of criteria for applying the concept of “inconsistency” as defined in ED-ISA 720. The proposed definition goes beyond the plain English meaning to describe a difference between the other information and the audited financial statements. If the IAASB decides to retain the proposed definition, the AASB suggests that there is a need for guidance on what would constitute “information that is unreasonable or inappropriate, or presented in a way that omits or obscures information”.
23. To address the concerns relating to the expectations gap and lack of criteria, the AASB proposes the following approach:
 - a. The definition of inconsistency should be limited to a statement that is inconsistent with the audited financial statements or the auditor’s knowledge as a result of the audit of the financial statements. The purpose of the auditor’s reading of the other information is to identify such inconsistent statements.
 - b. The auditor should not be obligated to proactively search for information that is unreasonable or inappropriate, or is presented in such a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information. Application material should be developed to acknowledge that, while the auditor may become aware of (that is, stumble upon) such matters when reading the other information, the auditor’s ability to recognize and address unreasonable, inappropriate, omitted, or obscure information is extremely limited.
 - c. When the auditor becomes aware of inconsistencies as defined in (a) above, the auditor should be required to assess their impacts on the audited financial statements and the auditor’s report thereon.

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- d. When matters of concern come to the auditor's attention, guidance should be developed to explain that, in the circumstance when discussions with management and, where appropriate, those charged with governance, fail to dispel the auditor's concerns, the auditor may request permission to discuss the matter with the entity's legal counsel (if applicable). In the case of regulatory documents, because legal counsel are experts in legal disclosure requirements, the auditor will normally be able to rely on the opinion of these experts regarding how the relevant matters can be resolved appropriately. The auditor may also wish to receive written confirmation from legal counsel of their view on the matter.

Inappropriate work effort on remaining other information

24. Paragraph A41 of ED-ISA 720 correctly states that the auditor is not expected have an understanding of all the other information. Given this premise, the AASB is of the view that the examples set out in paragraph A43 of procedures that can be performed on the remaining other information are excessive and potentially inappropriate. The AASB is aware that paragraph A43 is meant to provide examples of procedures that could be performed and is not a requirement. Nonetheless, including such guidance may result in users' expectations that an auditor would normally perform extensive procedures on the remaining other information.
25. In the AASB's view, the appropriate work effort for the remaining other information is simply to read the information and to respond appropriately if the auditor becomes aware of matters in the other information. This is already indicated in paragraph A37(d) of ED-ISA 720. Therefore, the AASB suggests deleting paragraph A43.

Reporting

Canadian Stakeholder Viewpoints

Belief that assurance is provided

26. Despite the disclaimer that no audit or review was performed, the majority of Canadian stakeholders believe that users are likely to take assurance from the auditor's conclusion on the other information. However, stakeholders have divergent views on what that level of assurance might be:
- Most stakeholders expressed the view that the auditor's conclusion that the auditor has not identified material inconsistencies in the other

information appears to be negative assurance on the other information (that is, limited assurance similar to that for a review engagement).

- A few stakeholders indicated that, since the other information paragraph is included in an auditor’s report, users are likely to assume that the auditor is providing the same level of assurance on the other information as the audited financial statements (that is, reasonable assurance).
- Other stakeholders suggested that under proposed ISA 720 (Revised), the auditor would be expected to provide some form of assurance on the other information that differs from an audit or a review. These stakeholders noted that ED-ISA 720 uses the words “do not express an audit opinion or review conclusion,” which are different from the wording used in paragraph A11 of ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, which suggests an Other Matter paragraph stating that “... we do not express an opinion **or any other form of assurance** on the 20X1 financial statements taken as a whole.” Avoiding the words “any form of assurance” is viewed as a signal by the stakeholders that users are supposed to take some assurance from the auditor’s conclusion.

27. Regardless of the level of assurance users may believe they are receiving, most Canadian stakeholders are of the view that an auditor performing the procedures proposed in ED-ISA 720 is unlikely to have performed sufficient work to provide a meaningful level of assurance to intended users. This is especially true when the auditor has very limited, if any, knowledge regarding most of the content in a document. However, the auditor’s conclusion would appear to provide a meaningful level of assurance on the whole document, with the result that users of the financial statement and the auditor’s report thereon could be potentially misled. To a lesser extent, some Canadian stakeholders expressed a concern that simply describing the auditor’s responsibilities might also be misleading. The auditor’s work regarding other information would be singled out for particular attention (unlike work on other aspects of the audit such as counting inventory), giving the false impression that the other information was more important than many other aspects of the audit.

Legal liability issues

28. Under Canadian legislation, if the auditor consents to the use of the auditor’s report in a public document and the auditor has reported on the other information, then there is a possibility that the auditor would be held to a standard of an expert when the courts are attaching legal liability arising from a misrepresentation in the other information. Many Canadian stakeholders are of the view that, given the auditor’s limited knowledge of

the other information, the potential legal liability issue may result in unintended consequences. For example, to protect themselves from potential legal liability, many auditors may refrain from providing audit services to entities that issue documents containing or accompanying audited financial statements, or significantly increase audit fees to compensate for the additional legal liability. This could in turn result in many entities refraining from distributing documents voluntarily or issuing only boilerplate communications, and thus impairing their communications to their stakeholders in order to avoid the costs and other complications.

Desire for increased transparency regarding the auditor's responsibilities

29. Despite the issues expressed above, a number of Canadian stakeholders hold the view that there is a need to enhance transparency of the auditor's responsibilities relating to the other information. Further, a few stakeholders stated that, while they share many of the same concerns regarding unwarranted reliance by users on the limited work performed by the auditor, they believe that a conclusion on the other information would be appropriate if the auditor's responsibilities are appropriately described, perhaps by including more detailed descriptions of the auditor's responsibilities and the limitations of the auditor's work effort.

Identification of documents read by the auditor

30. The requirement and guidance in paragraphs 16(b) and A59 of ED-ISA 720 requires the auditor's report to identify the specific documents that contain the other information that the auditor has read and considered, but not the other information obtained after the date of the auditor's report. Many Canadian stakeholders expressed the view that this inconsistency will likely cause significant confusion in the capital markets, and is incompatible with enhancing transparency regarding the auditor's responsibilities because the auditor would have read the document but would not have noted it on the auditor's report.

AASB's Conclusions

31. The AASB shares the Canadian stakeholders' concerns regarding unwarranted reliance by financial statements users on the auditor's limited knowledge of, and procedures performed on, the other information. Therefore, the AASB strongly believes that there is a need to enhance transparency of the auditor's responsibilities with respect to the other information. As noted in our opening remarks, Canadian stakeholders generally did not identify a need to change the auditor's responsibilities with respect to the other information. However, an appropriate description of the auditor's responsibilities would mitigate the concerns expressed by the stakeholders and should be developed. The AASB suggests that the other information paragraph, included as part of the description of the

auditor's responsibilities in the auditor's report, incorporate the following features:

- All the documents within the scope of ISA 720 (Revised) should be identified. If the IAASB accepts the suggestion set out in paragraph 12 to include only documents available as at the date of the auditor's report in the scope of ISA 720 (Revised), identifying all documents within the scope should not pose any problems.
- A statement that the completeness and adequacy of disclosures in the other information is the responsibility of management.
- The description of the auditor's responsibilities should highlight:
 - The auditor's focus in reading the other information is on identifying whether there are any statements in the other information that are inconsistent with the audited financial statements or the auditor's knowledge as a result of the audit of the financial statements.
 - The auditor has a responsibility to consider the implications on the audited financial statements and the auditor's report thereon if the auditor identifies a material inconsistency. However, an explicit conclusion on the results of the auditor's procedures should be excluded.

32. To address the above issues stated, the other information paragraph may be reworded along the following:

Other information

As part of our audit, it is our responsibility to read the following information outside of the audited financial statements ("other information"):

- The MD&A; and
- The CEO/CFO certifications.

The completeness and adequacy of disclosures in the MD&A and CEO/CFO certifications is the responsibility of management.

Our purpose in reading the other information is to identify whether there are any statements in the other information that are inconsistent with the audited financial statements or our knowledge as a result of our audit of such financial statements. If we identify a material inconsistency, we consider the implications on the audited financial statements and on our auditor's report thereon. However, we have not audited or reviewed the other information and accordingly, we do not express an audit opinion or a review conclusion on the other information.

We hope that these comments will be useful to the IAASB in finalizing proposed ISA 720 (Revised). If you have any questions or require additional information, please contact Greg Shields at (416) 204-3287.

Yours very truly



Mark Davies, CIA, CPA, CA
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
John Wiersema, FCPA, FCA
Bruce Winter, FCPA, FCA

Appendix 1: Summary of AASB Consultations on the IAASB’s Exposure Draft of ISA 720 (Revised)

Public roundtable sessions

Date	Location	No. of participants	Stakeholder groups represented
January 21	Toronto	10	<ul style="list-style-type: none"> • “Big 6” public accounting firm • Mid-sized public accounting firm
January 28	Montreal	9	<ul style="list-style-type: none"> • Mid-sized public accounting firm • Legislative auditor • Investor • Government
January 29	Halifax	7	<ul style="list-style-type: none"> • “Big 6” public accounting firm • Board of Directors • Financial statements preparer • Investor relation
January 30	Calgary	16	<ul style="list-style-type: none"> • “Big 6” public accounting firm • Mid-sized accounting firm • Financial statements preparer
February 1	Vancouver	14	<ul style="list-style-type: none"> • “Big 6” public accounting firm • Mid-sized accounting firm • Financial statements preparer • Regulator

Groups Consulted

- Institute of Chartered Accountants of British Columbia’s Mining Forum, consisting of 18 financial statements preparers and auditors of mining venture issuers
- Staff of the Canadian Securities Administrators
- Canadian Institute of Chartered Accountants Small Company Advisory Group, comprising of 13 members of the smaller public company stakeholder community - CFOs, auditors and financial advisers, and audit committee chairs

Formal Response Letters received

- 2 response letters from legislative auditors
- 1 response letter from a “Big 6” public accounting firm

Appendix 2: Responses to Questions in ED-ISA 720

- 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?**

There is a need to increase the value that a public accountant can add to the other information. This could be best accomplished by developing an ISAE or ISRS to deal specifically with services focused on the other information. The auditor’s responsibilities relating to the other information under ISA 720 should focus on matters that have an effect on the financial statement audit. Please see the AASB’s General Comments in paragraphs 1-7.

- 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?**

The AASB agrees with broadening the scope to include accompanying documents, but has significant concerns regarding the parameters of the proposed scope.

- 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?**

Consistent with the views expressed by many Canadian stakeholders, the AASB finds the concept of initial release to be confusing because the proposed ISA introduces the concept of “documents issued in connection with the initial release”. Please see the AASB’s conclusions in paragraph 12.

- 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?**

No. Consistent with the views of the majority of Canadian stakeholders, the AASB is of the view that inclusion of securities offering documents in the scope of ISA 720 (Revised) would result in duplication and confusion if auditors are required to comply with both the Canadian standard and ISA 720 (Revised). Please see the AASB’s conclusions in paragraphs 13-14.

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?

The AASB believes that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable. However, the AASB has concerns regarding two fundamental changes to the objectives from extant ISA 720: (i) the increased emphasis on identifying material inconsistencies in the other information, and (ii) reporting of the results of the procedures performed on other information. These are discussed in further detail in the Objectives and Related Work Effort and Reporting sections of this letter.

In addition, the AASB has concerns regarding the phrase “read and consider”. The AASB notes that the ISAs contain many references to reading certain documents. For example, ISA 560 makes references to reading minutes, interim financial statements, available budgets, cash flow forecasts, related management reports, and official records of relevant proceedings of the legislature. It is unclear as to whether the words “read and consider” in ED-ISA 720 are meant to imply a higher work effort than the reading as required in ISA 560. In the view of the AASB, unless there is a good reason for distinguishing the auditor’s work efforts between “reading and considering” and “reading”, ISA 720 (Revised) should use the terminology “read” to maintain consistency with the other ISAs.

(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?

Yes. Discussions with Canadian stakeholders indicate that it is clear that the auditor’s responsibilities include the extant objective of reading the other information for consistency with the audited financial statements.

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. Discussions with Canadian stakeholders indicate that the lack of criteria against which to evaluate whether a statement is unreasonable or inappropriate, or whether the presentation omits or obscures information

necessary to properly understand the matter being addressed, would result in significant confusion . Please see the AASB’s conclusions in paragraphs 21-23.

An additional concern relates to the concept of material inconsistency in the context of a public sector audit. Paragraph A3 of ED-ISA 720 states that, “in the public sector, the intended users may make non-economic decisions based on the other information, such as changes in public policy and direction. An inconsistency may therefore be material in the public sector if it could reasonably be expected to influence such **non-economic decisions...**” This guidance has significant implications for how materiality is viewed in the audit of public sector entities. Paragraph 2 of ISA 320, *Materiality in Planning and Performing an Audit*, defines materiality by reference to influence on **economic decisions** of users. In the view of the AASB, introducing non-economic decisions to the concept of materiality is beyond the scope of an audit standard. Further, financial statement auditors are unlikely to have experience with determining materiality in the context of non-economic decisions. Therefore, the AASB recommends deleting paragraph A3.

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?

As indicated in the main body of our letter, (see for example paragraphs 17-18), Canadian stakeholders find the concepts embedded in the definition of inconsistency to be confusing. Given users’ limited knowledge of the level of understanding of the entity and its environment obtained by the auditor during the course of the audit, it is likely that many users will misinterpret inconsistency as encompassing all matters in the other information, including, for example:

- Biased information, which goes beyond unreasonable or inappropriate information as contemplated in paragraph 9(a)(i) of ED-ISA 720.
- Omission of any important matters related to the entity, which goes beyond presenting information in a way that omits information as contemplated in paragraph 9(a)(ii) of ED-ISA 720.
- Accurate predictions of future oriented 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?

The AASB agrees with the use of a principles-based approach for determining the extent of work. However, the AASB is concerned that the guidance in certain application paragraphs seems to imply an inappropriate level of work effort. Please see AASB's conclusions in paragraphs 24-25.

(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?

No. Please see AASB's conclusions in paragraphs 24-25.

(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?

Consistent with the views expressed by Canadian stakeholders, the AASB believes that the proposed work effort extends the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements for the following reasons:

- The proposed objectives and the definition of inconsistency would obligate the auditor to read and consider information that does not have any effect on the audit of the financial statements.
- As at the date of the auditor's report, the auditor would have obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. The proposed scope would require the auditor to read and consider other information obtained subsequent to the date of the auditor's report.
- As discussed in the Objectives and Related Work Effort sections of this letter, performing procedures on the remaining other information is highly unlikely to yield evidence to support the auditor's opinion on the audited financial statements.

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

The AASB did not find the examples in the Appendix to be useful. The list might be made more useful if it included suggested auditor's procedures for each information example. In addition, the AASB suggests the following changes to other examples in the proposed ISA:

Deleting examples unrelated to the audit of the financial statements

Paragraph A15 of ED-ISA 720 refers to other information that may be prospective in nature and contains examples of other information that deals

with matters that go beyond the audit of the financial statements (for example, sustainability and corporate social responsibility information). The auditor would not be in a position to identify material inconsistencies in such information. The AASB acknowledges that paragraph A15 is meant to present illustrative examples. However, listing the examples may incorrectly give the impression that the auditor would read the other information listed in all cases.

Including guidance regarding search of the entity's website

Paragraph A8 of ED-ISA 720 provides guidance on documents included in an entity's website. In the December 2011 version of draft ISA 720 (Revised), the corresponding paragraph contained guidance that "...the auditor is not expected to search the entity's website for documents that are within the scope of the ISA..." The AASB notes that this guidance has been deleted from the Exposure Draft. In the AASB's view, this guidance is useful as it provides clarity regarding the auditor's work effort and therefore, suggests that it be reinstated in paragraph A8.

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 AASB is supportive of the proposed requirements and notes that they are consistent with the requirements in ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, and ISA 560, *Subsequent Events*. In addition, users may find it useful if ISA 720 (Revised) includes reminders that ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, provide requirements and guidance regarding the effect on the audit of the financial statements if the auditor becomes aware of fraud or illegal acts when reading the other information (for example, if management made an untrue statement of fact in the annual report).

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?

As indicated in the Objectives and Work Effort section in this letter and our responses to questions 5(a), Canadian stakeholders found the phrase "read and consider" and the concepts embedded in the definition of inconsistency

to be confusing. The AASB is also concerned that such confusion would result in unwarranted reliance by users on the auditor's conclusion. Please see the Reporting section in paragraphs 26-32.

(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. Consultations with Canadian stakeholders suggest that users are likely to take assurance from the auditor's conclusion on the other information. The AASB is concerned that an auditor performing the procedures in ED-ISA 720 (Revised) is unlikely to have performed sufficient work to provide assurance that is meaningful to the intended users. Please see the Reporting section in paragraphs 26-32.

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?

The AASB does not believe that the level of “assurance” with respect to other information is appropriate. For the reasons stated in the Objectives and Related Work Efforts and the Reporting sections in this letter, the AASB is of the view that users of the financial statements would be confused as to the “assurance” provided by the auditor regarding the other information. If the IAASB's objective is to encourage auditors to identify problems in the other information, the AASB is of the view that a separate engagement standard should be developed to deal with this.

Request for General Comments

Preparers

We have no comments regarding the proposed revised ISA that are specific to preparers of financial statements. Our consultations with financial statements preparers indicate that their views are consistent with those of other stakeholders groups, which are expressed in our response letter.

Developing Nations

We have no comments on the difficulties in applying the proposed revised ISA in the developing nation environment.

Translations

We have not identified any potential translation issues.

Effective Date

The AASB notes that many of the proposals in the Exposure Draft are driven by the Auditor Reporting project. Many of the issues regarding Other Information

contemplated in the Auditor Reporting project continue to be highly controversial. Therefore, the AASB is of the view that the ISA 720 revision project should progress at the same speed as the auditor project. This would allow the most current and innovative thinking and concepts to be applied consistently across both ISA 720 (Revised) and the Auditor Reporting project. For example, the IAASB may wish to consider the costs and benefits of limiting the application of ISA 720 (Revised) to certain public interest entities, in a similar fashion as Auditor Commentary in the Auditor Reporting project.

Consequential and Conforming Amendments to Other ISAs

Subject to our responses to the specific questions posed in the Exposure Draft, the AASB has a few additional suggestions relating to the consequential and conforming amendments.

ISA 700, Forming an Opinion and Reporting on Financial Statements

Paragraph A26 of the ED-ISA 720 states that “the auditor is not precluded from dating the auditor’s report if the auditor has not obtained the other information.” For the reasons stated in paragraph 12, we suggest that paragraph A26 state that the auditor is not precluded from dating the auditor’s report if the auditor has not obtained the **final version** of the other information. It may also be useful to include a similar statement in an application paragraph in ISA 700.

ISQC 1 and ISA 220 (Quality Control Standards)

PCAOB’s auditing standard No. 7 (AS 7), *Engagement Quality Control Review*, requires that the engagement quality control reviewer read other information in documents containing financial statements and evaluate whether the engagement team has taken appropriate action with respect to material inconsistencies with the financial statements or material misstatements of fact of which the engagement quality control reviewer is aware. [Paragraph 10(g) of AS 7]

In the view of the AASB, this AS 7 requirement represents good practice and incorporating this procedure in ISQC 1/ISA 220 as either a requirement or guidance in ISQC 1/ISA 220 would enhance the quality of the international quality control standards. This change can be proposed as a conforming amendment to ISQC 1/ISA 220.