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

Re: Request for Public Comment: Exposure Draft on ISA 720, *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:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA).

The CAQ appreciates the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) on its Exposure Draft on International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (Exposure Draft). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ is supportive of efforts to enhance the auditor's reporting model to better meet the needs of financial statement users and has previously shared views on this topic in comment letters to both the IAASB and the Public Company Accounting Oversight Board (PCAOB).¹ Consistent with views shared in those letters, we continue to support transparency in the auditor's report with respect to the auditor's responsibilities related to other information. In the context of extant ISA 720² we are supportive of several enhancements to the auditor's report, including a statement whether or not the auditor is aware of any unresolved material inconsistencies between the other information and the audited financial statements or material misstatements of fact. However, we are not supportive of the other proposed changes to extant ISA 720, which we believe could result in unintended consequences that run contrary to the

¹ See CAQ comment letters to the IAASB dated October 8, 2012 and September 15, 2011 and the PCAOB dated September 30, 2011 and June 28, 2011. Available at: <http://www.thecaq.org/resources/commentletters.htm>.

² See ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

benefits the IAASB is seeking to achieve, including narrowing the expectation gap, promoting consistency in practice, and increasing the value of the audit.

We believe it would be helpful for the IAASB to advance its standard-setting project on the auditor's reporting model with respect to other information in order to determine whether reporting under extant ISA 720 will meet the needs of financial statement users or whether demand exists for an expansion in the role of the auditor in this area. Should users support such an expansion in the auditor's role, we suggest that the IAASB explore whether users' needs are best met through additional procedures beyond the proposed "read and consider" approach and/or through a separate attestation engagement on specific types of other information. We also believe it is critical that there be clearly defined management reporting criteria for the other information that would be subject to the additional procedures or separate attestation by the auditor.

Views on Reporting Related to Extant ISA 720

The CAQ supports enhancements to the auditor's report that provide transparency about the auditor's responsibility with respect to other information. Accordingly, we believe that the auditor's report could be modified in the context of extant ISA 720 to:

- i. Describe the auditor's responsibilities with respect to the other information;
- ii. Identify the other information read by the auditor;
- iii. State whether or not the auditor is aware of any unresolved material inconsistencies between the other information and the audited financial statements, or any unresolved material misstatements of fact; and
- iv. Clarify that the auditor did not audit and does not provide any assurance on the other information, in order to mitigate the risk that financial statement users inappropriately infer that the auditor has a greater responsibility with respect to other information than required under extant ISA 720.

We believe that these enhancements in reporting would provide increased clarity regarding the auditor's involvement with respect to other information.

Views on Proposed ISA 720

The CAQ believes that the existing model under extant ISA 720 promotes consistency in practice by providing a clear requirement for the auditor to read other information in order to identify material inconsistencies relative to the financial statements being audited, and in doing so remain alert for any material misstatements of fact in other information.³ The auditor fulfills this requirement based on his/her unique understanding of the financial statements derived through the performance of the audit.

As discussed below, the Exposure Draft proposes significant changes to the auditor's objective and the definition of inconsistency. These two changes taken together significantly expand the auditor's involvement with respect to other information beyond what can be accomplished in the context of the financial statement audit.

Objective of the Auditor

The Exposure Draft broadens the objective of the auditor by requiring the auditor to read and consider other information to identify material inconsistencies "in light of the auditor's understanding of the entity and its environment"⁴ in contrast to a more objective comparison to the "audited financial statements" under extant ISA 720.⁵ The auditor is currently required to obtain an understanding of the entity and its environment in the context of identifying and assessing the risk of material misstatement as part of the audit of the financial statements,⁶ but not as criteria for public reporting. We believe that a different scope and level of precision in understanding the entity and

³ See Extant ISA 720, Paragraphs 6 and 14.

⁴ See Exposure Draft, Paragraph 8.

⁵ See Extant ISA 720, Paragraph 6.

⁶ See ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*.

its environment than that required to be obtained in the context of the financial statement audit may be necessary to identify material inconsistencies in other information that could be partially or completely unrelated to the financial statements but encompassed within the Exposure Draft.

Definition of Inconsistency

Extant ISA 720 defines an inconsistency as other information that contradicts information contained in the audited financial statements.⁷ The Exposure Draft extends the definition of inconsistency to include information that is incorrect, unreasonable or inappropriate; or is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in other information.⁸ This expanded definition of inconsistency seems to convey that the auditor is required to evaluate assertions in other information that could be partially or completely unrelated to the financial statements. We believe that the auditor's understanding of the entity and its environment gained in the context of the financial statement audit may not provide a sufficient basis for considering such assertions related to other information.

Additionally, the CAQ believes that the subjectivity of the proposed definition (e.g., the meaning of the words "unreasonable" and "inappropriate") in combination with the broadening of the auditor's objective could result in auditors reaching different conclusions in the determination of what aspect of other information might be considered a material inconsistency. This could diminish the comparability of audit reports and detract from the value of such reporting to users.

Scope of Other Information Encompassed Within the Exposure Draft

The Exposure Draft expands the scope from other information in documents "containing" the audited financial statements under extant ISA 720⁹ to also include other information that "accompanies" the audited financial statements if such information has the primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process.¹⁰ We believe that the assessment of whether other information has a primary purpose of enhancing users' understanding of the financial reporting process is subjective, which increases the likelihood that different auditors could reach different conclusions on the scope of other information. This could diminish the comparability of other information identified in the audit report and generate an expectation gap with respect to users' understanding of the auditor's responsibility for other information.

Under the Exposure Draft, other information in a document that is within the scope of the Exposure Draft, but does not have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or financial reporting process (e.g., corporate social responsibility reports, sustainability reports), would be subject to the requirements of the Exposure Draft.¹¹ This expansion of scope, coupled with the broadening of the auditor's objective and the redefinition of inconsistency discussed above, represents a significant expansion in the auditor's responsibility with respect to other information that cannot be accomplished in the context of the financial statement audit.

Information on an entity's website could also fall within the scope of the Exposure Draft as it could be considered "accompanying" the financial statements if its primary purpose is to enhance the user's understanding of the financial statements or the financial reporting process.¹² We believe this approach presents a number of practical challenges. For example, management may subsequently modify or delete other information on the company's website that was previously read and considered by the auditor and identified in the auditor's report. We suggest that the IAASB determine how such challenges could be addressed prior to determining whether or not to include website information within the scope of other information.

⁷ See Extant ISA 720, Paragraph 5(b).

⁸ See Exposure Draft, Paragraph 9(a).

⁹ See Extant ISA 720, Paragraph 5(a).

¹⁰ See Exposure Draft, Paragraph 9(c).

¹¹ See Exposure Draft, Paragraph A13.

¹² See Exposure Draft, Paragraph A8.

The CAQ also believes that scoping in other information that is not available by the date of the auditor's report creates a responsibility for the auditor that extends beyond the date of the auditor's report.¹³ We suggest that other information issued after the date of the auditor's report be excluded from the scope of the auditor's responsibilities for other information. This would be consistent with ISA 560, *Subsequent Events* which indicates that after the financial statements have been issued the auditor has no obligation to perform any audit procedures regarding such financial statements.¹⁴ We believe this approach would enhance the value of auditor reporting to users by allowing the auditor to clearly communicate in the audit report what other information was read and considered. Additionally, we believe this approach would alleviate potential challenges in practice (e.g., satisfaction of documentation requirements including assembly of the final audit file in accordance with ISA 230, *Audit Documentation*).

We continue to support transparency in the audit report regarding the auditor's responsibility with respect to other information under extant ISA 720; however, we believe that the other changes proposed in the Exposure Draft are likely to undermine the benefits of extant ISA 720 and result in unintended consequences that run contrary to the benefits sought by the IAASB. As a result, we suggest that the IAASB explore whether reporting under extant ISA 720 meets the needs of users or whether demand exists for an expansion in the auditor's role with respect to other information. Should such demand exist, we believe the IAASB should consider whether the evolving needs of users are best met through additional procedures beyond the proposed "read and consider" approach and/or through a separate attestation engagement on specific types of other information.

The CAQ appreciates the opportunity to comment on the Exposure Draft and welcomes the opportunity to respond to any questions regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

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¹³ See Exposure Draft, Paragraph A59.

¹⁴ See ISA 560, Paragraph 14.