



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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April 15, 2013

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

Dear Sir:

**Re: 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 Public Accountability Board (CPAB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB's) 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*. CPAB is Canada's independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mission is to contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by effective regulation and promoting high quality, independent auditing. We accomplish our mission by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing standards and how they might be improved.

CPAB supports the IAASB's project to revise the extant ISA 720 to recognize both changes in the nature and extent of other information provided by entities in their efforts to give greater context to their financial information and the public interest need to extend the auditor's responsibilities in identifying material inconsistencies between this other information and their understanding of the entity and the environment acquired during the audit. We also believe revision to the extant ISA 720 is necessary to ensure greater consistency in the work effort performed by auditors on other information as our experience in Canada suggests that there is significant variation in current practice. Therefore, the revised standard should clearly

acknowledge that in some circumstances additional audit procedures will need to be performed to meet the requirements of the standard.

While overall CPAB supports the direction of the Exposure Draft, we have specific concerns related to the scope, approach to the work effort, and the proposed reporting that we believe need to be addressed in developing the final standard.

### **Scope**

We agree with the IAASB's decision to limit the scope of documents covered by the proposed standard to those whose primary purpose is to provide commentary to enhance the users' understanding of the audited financial statements or the financial reporting process. However, we are concerned that the proposed definitions of "initial release" and "other information" rely too heavily on the auditor's judgment and could lead to significant variation in practice in the documents considered within the scope of the standard between auditors within the same jurisdiction. We are also concerned that in applying the definitions of initial release and other information auditors in different jurisdictions may reach inconsistent conclusions as to whether or not a document is within the scope of ISA 720 even if those documents are similar in their content and time of release.

We appreciate the difficulty the IAASB faces in developing broadly applicable criteria for the documents included in the scope of the revised standard due to a the lack of generally accepted disclosure frameworks for other information and the variation in jurisdictional disclosure requirements under relevant laws and regulations. If the IAASB continues to believe that the scope should extend beyond documents containing audited financial statements, there may be a role for national standard setters to address the variability in disclosure practices by clarifying the scope of the revised standard for their jurisdiction. In that role, the national standard setters could also deal with potential duplication and/or conflicts related to the circumstances under which securities offering documents would be in the scope of the revised standard.

### **Work Effort**

While CPAB agrees that a principles-based approach to specifying the nature and extent of the auditor's work effort with respect to the other information is the most appropriate given the varying nature of other information, we are concerned that these principles are not sufficiently described within the single requirement in paragraph 11 to "read and consider the other information". The fact that this one sentence requirement is supported by 16 paragraphs of application guidance suggests to us that the underlying principles are complex and therefore require greater clarification within the requirements.

Paragraph 5 of the proposed standard states that "...This ISA does not impose an obligation on the auditor to express an audit opinion or a review conclusion on the other information". However, given the work effort to "consider" whether the other information contains material inconsistencies, as described in the application guidance, it is not clear whether the auditor is providing a new level of assurance albeit lower than an audit opinion or a review conclusion. This raises some concerns with reporting and the perceptions of users which we discuss below.

## **Reporting**

In the comments provided by CPAB in response to the IAASB's Invitation to Comment – Improving the Auditor's Report we supported the identification of the specific other information the auditor has read and a statement as to whether any material inconsistencies between this information and the audited financial statements have been identified, based on the scope and work effort of extant ISA 720. In supporting that proposal we indicated that further research into the perceptions of users would be helpful as we were concerned that the statement could create confusion with respect to the auditor's work effort relative to the other information. We also indicated that input received from the project to revise ISA 720, including the proposed reporting requirements, should be considered before a final decision is made regarding whether or not to include a statement in the auditor's report regarding other information.

Given the revised approach in the proposed standard to reporting on other information requiring the auditor to state they have a "...responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information in [*specify the documents containing the other information...*] and to report whether we have identified material inconsistencies..." we believe this will strongly suggest to users that some level of assurance is being provided. Under the assumption that no assurance is intended to be provided the reporting should better explain the responsibilities of management, the work effort of the auditors, and what constitutes a material inconsistency. However, it is unlikely that even this expanded disclosure would completely mitigate the risk of misunderstanding or confusion amongst users.

With respect to reporting, we also recommend the IAASB consider expanding the auditor's reporting requirements to those charged with governance to include all non-trivial inconsistencies in other information similar to that required for uncorrected misstatements. This would provide insight for those charged with governance into the quality of the public reporting and whether there are disclosure issues that may have more significant implications.

In addition to our comments above, our responses to the questions posed in the Exposure Draft are included in the Appendix to this letter.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Brian Hunt, FCPA, FCA  
Chief Executive Officer

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

Mr. Greg Shields, CPA, CA  
Director, Auditing and Assurance Standards  
The Canadian Institute of Chartered Accountants

**APPENDIX:** Response to the request for specific comments:

**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?**

CPAB believes that extending the auditor's responsibilities with respect to other information in the revised ISA 720 will ensure greater consistency in the work effort performed by auditors. Current practice in Canada suggests that there is significant variation in the auditor's consideration of the range of information containing audited financial statements and extent of work performed on that information to meet the requirements of the current ISA. The revised standard should clearly acknowledge that in some circumstances additional audit procedures will need to be performed to meet the requirements of the standard.

The expected costs of meeting the requirements of the revised ISA 720 will depend on the auditor's current work effort. Additional time will likely be required on behalf of the auditors and the preparers as well as those charged with governance. The cost/benefit analysis performed by the IAASB, which is said to have been considered in developing the proposed ISA, is not available to respondents. As such, it is not possible for CPAB to comment on whether the benefits will outweigh the costs involved.

**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?**

CPAB believes that the scope of documents covered by the proposed standard should be limited to those whose primary purpose is to provide commentary to enhance user's understanding of the audited financial statements or the financial reporting process. Broadening the scope from documents containing audited financial statements to documents that accompany the audited financial statements would be appropriate provided the discrepancy in regulatory disclosure requirements between jurisdictions is adequately addressed.

**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 are concerned that the proposed definition of “initial release” and “other information” rely too heavily on the auditor’s judgment and could lead to significant variation in practice in the documents considered within scope of the standard between auditors within the same jurisdiction. We are also concerned that in applying the definitions of initial release and other information auditors in different jurisdictions may reach inconsistent conclusions as to whether or not a document is within the scope of ISA 720 even if those documents are similar in their content and time of release.

The difficulty the IAASB faces in developing broadly applicable criteria for the documents included in the scope of the revised standard are due to the lack of generally accepted disclosure frameworks for other information and the variation in jurisdictional disclosure requirements under relevant laws and regulations. The difficulty could be mitigated by limiting the scope to financial information accompanying audited financial statements. If the IAASB continues to believe that the scope should extend beyond documents containing audited financial statements, there may be a role for national standard setters to address the variability in disclosure practices by clarifying the scope of the revised standard for their jurisdiction.

**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?**

As mentioned under question 3, in the event that the national standard setters address the variability in disclosure practices by clarifying the scope of the revised standard for their jurisdiction, they could also deal with potential duplication and/or conflicts related to the circumstances under which securities documents would be in the scope of the revised standard. The Canadian Auditing and Assurance Standards Board has identified a conflict in the scope of the revised standard with existing Canadian requirements related to

offering documents in their exposure draft proposing the adoption of the revised ISA 720 as a Canadian Auditing Standard.

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 phrase “in light of the auditor’s understanding of the entity and its environment” should be understandable for the auditor given the direct linkage in paragraph A28 to the requirements in ISA 315 regarding obtaining an understanding of the entity and its environment. However, the phrase “acquired during the audit” may not be as clear given the statement in paragraph A29 that this “...also encompasses understanding of matters that may be prospective in nature.” The guidance in paragraph A29 should be expanded to clarify the expectations around the auditor’s consideration of prospective matters.

The requirement in paragraph 11 on what it means to “read and consider” is supported by 16 paragraphs of application guidance which suggests that the underlying principles are complex and therefore require greater clarification within the requirements. See also response to question 8(a).

- (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?**

The objectives as defined in paragraph 8 of the exposure draft do not clearly state that the auditor’s responsibilities include considering the other information for consistency with the audited financial statements.

In addition, paragraph 8 (a) (ii) states that the auditor should respond appropriately when the auditor identifies that the audited financial statements may be materially misstated.

However the exposure draft does not specifically mention how auditors should deal with these situations other than to perform procedures necessary under the ISAs.

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?**

The definitions of the terms “inconsistency”, including the concept of omissions and “a material inconsistency in other information” appear appropriate.

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?**

There is insufficient information included in the reporting requirements and application guidance to enable users of auditors’ reports to understand what a material inconsistency is and what procedures were performed on the other information. In addition, management’s responsibilities are not outlined in the reporting paragraphs, which is inconsistent with reporting requirements of ISA 700.

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?**

While CPAB agrees that a principles-based approach to specifying the nature and extent of the auditor’s work effort with respect to the other information is the most appropriate given the varying nature of other information, we are concerned that these principles are not sufficiently described within the single requirement in paragraph 11 to “read and consider the other information”.



**(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?**

CPAB reviewed the categories of other information in paragraph A37 and believe the categories are appropriate as is the nature and extent of the work effort for the quantitative, qualitative, and directly reconcilable financial information categories. In the guidance on the nature and extent of work effort for the fourth category, remaining other information, we believe that one of the considerations by the auditor should be whether that other information could reasonably be expected to influence the economic decisions of users. Without considering users of the other information in determining the work effort there is a risk that the auditor's work effort could put too much emphasis on the information that can be "ticked and tied" into the audit working paper file.

**(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?**

While the work effort will increase under the proposed standard for directly reconcilable financial information and remaining other information we do not believe that this increase in work effort extends the scope of the audit beyond that necessary for the auditor to express an opinion on the 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 examples in the Appendix are helpful however as mentioned in question 8 (b), clearer guidance is required to enable the auditor to determine the extent of work expected to be performed.

**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?**

CPAB agrees that this is clear under paragraph 15 of the proposed standard.

**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?**

CPAB believes that this terminology strongly suggests to users that some level of assurance is being provided. Under the assumption that no assurance is intended to be provided the reporting should better explain the responsibilities of management, the work effort of the auditors, and what constitutes a material inconsistency. However, it is unlikely that even this expanded disclosure would completely mitigate the risk of misunderstanding or confusion amongst users.

With respect to reporting, we also recommend the IAASB consider expanding the auditor’s reporting requirements to those charged with governance to include all non-trivial inconsistencies in other information similar to that required for uncorrected misstatements. This would provide insight for those charged with governance into the quality of the public reporting and whether there are disclosure issues that may have more significant implications

- (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?**

See 11 (a) above.

**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 are supportive of the premise that no assurance is expressed on the other information based on the limited nature of audit procedures performed. Given the level of work effort to “consider” whether the other information contains material inconsistencies, as

described in the application guidance, it is not clear whether the auditor is providing a new level of assurance albeit lower than an audit opinion or a review conclusion.