

18 July 2014

Ms. Kathleen Healy
IAASB Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017

Dear Ms. Healy:

Exposure Draft, ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* (Proposed ISA 720), issued by the International Auditing and Assurance Standards Board (IAASB).

We continue to support the IAASB in its project to reconsider the auditor's responsibilities for other information, with the view that: (i) any modification to the auditor's responsibilities remain consistent with the scope of the financial statement audit; (ii) the revised standard better aligns the scope and work effort to the current environment; (iii) there is greater clarity over the auditor's responsibilities for other information with explicit reporting of the auditor's responsibilities and related work effort with respect to other information.

We note that Proposed ISA 720 incorporates significant revisions to the 2012 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* (ED-720 (2012)). The revisions and their accompanying rationale as set out in the Explanatory Memorandum evidence the IAASB's thoughtful consideration of the comments received on ED-720 (2012).

Many of our comments and concerns on ED-720 (2012) have been addressed by the IAASB in developing Proposed ISA 720. However, as presently drafted, we continue to believe certain aspects of Proposed ISA 720 will be difficult to implement in practice and that global consistency in the auditor's responsibilities for other information is unlikely to be achieved. We summarize our principal concerns below and elaborate on them further in Section 1 of the Appendix to this letter, with suggested wording for the requirements and application material to address our concerns.

Definition of "materiality of misstatement" within misstatement of the other information"

We do not agree with how materiality of misstatements is defined within the definition of "misstatement of the other information". Specifically, we do not believe it is appropriate to apply the concept of materiality

for the financial statement audit, as described in ISA 320¹, to the auditor's consideration of other information since this is not the subject matter to which this materiality concept applies. We also believe the definition is too similar to that for assurance engagements in ISAE 3000². The current definition extends and applies the concept of materiality for a financial statement audit to the other information. We do not believe this is appropriate because neither the work effort in Proposed ISA 720 nor its scope impose an obligation on the auditor to convey assurance on the other information. Further, the current definition appears to set the threshold for a material misstatement of the other information at the same level as a material misstatement of the financial statements, whereas we would expect the threshold to be inherently higher than that for an audit or assurance engagement because the auditor is not conveying assurance on the other information. We do not understand why the materiality would be the same.

We believe that the fundamental rationale for the auditor's work related to other information is to address the risk that a material misstatement of the other information "may undermine the credibility of the financial statements and the auditor's report thereon", and that this should be reflected in the definition of materiality of misstatement. This would also help to distinguish the performance of the auditor's work under Proposed ISA 720 from that of an assurance engagement as well as assist the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement.

The auditor's work effort

We agree with the requirements in Paragraphs 14 (a), 14 (b) and 15 to read and consider the other information. However, we do not view Paragraph 14(c) as a principal objective of the auditor's work, but rather as a possible outcome that is consistent with the auditor's possible discovery of a "material misstatement of fact" under extant ISA 720. For that reason, Paragraph 14(c) should become a separate requirement (following Paragraph 15) that clearly states therein that the requirement for the auditor to remain alert:

- Occurs when reading the other information for the purpose of identifying material inconsistencies
- Applies to information not related to the financial statements or the auditor's knowledge obtained during the course of the audit

We agree with the requirements in Paragraphs 16-20 regarding the auditor's response when a material inconsistency appears to exist, or when the auditor becomes aware of other information that appears to be materially misstated.

The auditor reporting requirements and illustrative reporting statements

We are supportive of explicitly reporting on the auditor's responsibilities and related work effort with respect to other information. We support this as we think it will aid in narrowing the expectation gap about the nature of the auditor's role in other information. Although we see improvement in some of the reporting requirements in Proposed ISA 720, including the illustrative reporting statement, we do not

¹ ISA 320, *Materiality in Planning and Performing an Audit*

² ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

believe that the goal of effective communication to users has been fully achieved. “Effective communication to users” means, in our view, more than transparency; it also means that auditor reporting should be clear and understandable, and capable of being consistently implemented.

We do not believe that Proposed ISA 720 sufficiently addresses the implementation challenges that will arise in practice due to the timing of the availability of other information, the range of such other information, the timing of completion of the audit and associated auditor reporting, and the timing of the release of the other information. This is because, in our view, the auditor reporting model has two fundamental barriers to its ability to achieve consistent implementation:

- The variability in the content of the annual report across jurisdictions, from single documents to multiple documents, along with variability in entities’ respective reporting deadlines, whether they are listed, public interest or public sector entities, or entities that prepare an annual report on a voluntary basis
- The inclusion of auditor reporting on other information within the auditor’s report, which often will be dated and issued before all other information has been obtained by the auditor

We do not believe that the first barrier can be overcome at the international level. With regard to the second barrier, we agree with the IAASB that it is not in the public interest to withhold the auditor’s report until the auditor’s responsibilities under Proposed ISA 720 have been met. We believe timeliness of reporting is important to investors and users of the financial statements. We also agree with the IAASB that it is not possible at the international level to mandate re-issuance or amendment of the auditor’s report due to the inability to do so in certain jurisdictions. We therefore understand the IAASB’s approach in Proposed ISA 720 to focus on maximizing the transparency that can be achieved in the auditor’s report based on the other information obtained prior to date of the auditor’s report.

However, we are not convinced that the benefits of transparency outweigh the inconsistencies in reporting on other information (and the resulting possible confusion to users) that more likely than not will arise in practice. In principle, we acknowledge that when other information is obtained prior to the date of the auditor’s report and no material misstatements of the other information exist, the auditor should be able to describe the other information in scope and the responsibilities of the auditor, and to state in the auditor’s report that there is nothing to report. However, we remain concerned about, and do not support, the auditor making an affirmative statement in the auditor’s report as we believe there is a risk investors and users could presume assurance is being conveyed on the other information, no matter the caveats given.

It is more likely than not that practice will vary. In some jurisdictions, reporting on other information will be the exception rather than the rule because the timing of availability of other information typically will be after the date of the auditor’s report. In other jurisdictions, practice will be mixed. In both cases, we believe that the IAASB’s goal of transparency and effective communication to users about the auditor’s responsibilities relating to other information will not be met. In addition, it would seem that auditors that are able to report on other information in their auditor’s report are being held to a higher standard than those that are not able to do so.

Notwithstanding our concerns about the inherent inconsistencies in the auditor reporting model for other information at the international level, we believe that consistency in auditor reporting on other information may be achieved at a jurisdictional level in many cases. We are supportive of jurisdictional efforts to enhance an international reporting model by providing clear communication of the auditor's responsibilities for other information as relevant to both the content and timing of release of the annual report in the particular jurisdiction. We also believe that through law, regulation and national auditing standards, jurisdictions have greater flexibility in, and control over, their implementation options.

Due to the significant barriers to achieving consistency in auditor reporting at the international level, we suggest an alternate approach to auditor reporting on other information for Proposed ISA 720 as follows:

- Include a description of the auditor's responsibilities in all auditor's reports when ISA 720 applies.
- Identify in the auditor's report the other information obtained and read by the auditor prior to the date of the auditor's report.
- Retain the exception-based reporting model that would require the auditor's report to include a description of a material misstatement of other information that has been identified but not corrected prior to the date of the auditor's report.
- Include application material that acknowledges that additional reporting requirements may be imposed by jurisdictions, through law or regulation or other means.
- Conduct a post-implementation review to survey the implementation of auditor reporting on other information at the jurisdictional level and determine whether amendments to the international reporting model can be made that will improve the model, but yet retain consistency.

Editorial observations and suggestions

Our letter also includes comments on proposed consequential and conforming amendments and a number of editorial observations and suggestions which are set out in Sections 3 and 4 of the Appendix to this letter, respectively.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice (karen.golz@eyg.ey.com).

Yours sincerely,

Ernst + Young Global Limited

Appendix

1. Responses to specific matters on which the IAASB is seeking comments

1.1 *Whether, in your view, the stated objectives, scope and definitions, and the requirements addressing the auditor’s work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.*

Overall, we believe that the IAASB has greatly clarified the stated objectives, scope and definitions, as well as the requirements addressing the auditor’s work effort from ED-720 (2012), and set forth, in many regards, appropriate auditor’s responsibilities. Our main concern about ED-720 (2012) was the missing link between the auditor’s objectives and work effort and the audited financial statements. We are very pleased to see that the IAASB has reinstated the consideration of whether the other information is materially inconsistent with the financial statements as a primary objective and focus of the work effort in Proposed ISA 720.

However, we have identified a few areas that would benefit from further clarification or improvement in order for Proposed ISA 720 to be capable of being applied and generally accepted on a global basis. These areas are discussed below.

Scope and definition of annual report

We agree with the revised scope of other information being limited to the annual report, as well as the discontinuation of the concept of “initial release”. We also agree with the definition of the annual report, recognizing that there may need to be more specificity at the jurisdictional level to align with law, regulation, or custom. We recognize it may be more challenging for the auditor to determine what constitutes an annual report for certain entities in the absence of securities or other regulation that typically governs the form and content of an annual report, such as those that exist for listed and other public interest entities. In such cases, it will be critical for the auditor to have the discussion with management as required by Paragraph 13 to determine the documents subject to Proposed ISA 720.

We also believe it is important in all cases for the engagement agreement and written representations from management to clearly specify the documents determined to be in scope. (Please refer to Section 1.2 for further comments in this regard).

Objectives

We believe that the objectives in Proposed ISA 720, as stated in Paragraph 11, are appropriately action-oriented, and are clearly correlated to the auditor’s work effort in Paragraph 14. This is a correlation with which we agree and view as important. However, we believe Paragraph 11 could be improved to better convey the purpose of the auditor’s work in achieving those objectives.

Although it is unusual for the objectives of an ISA to include a rationale for the responsibilities imposed on the auditor, we believe that the auditor's work under Proposed ISA 720 is unique because it is the only work that the auditor performs that is beyond obtaining audit evidence in support of the auditor's opinion on the financial statements. We therefore consider it is essential for Proposed ISA 720 to communicate why the ISAs include responsibilities for the other information as part of the financial statement audit. This explanation would help to provide the appropriate context for the auditor's work, as well as assist in distinguishing responsibilities under Proposed ISA 720 from those that may constitute a separate assurance engagement on the other information.

We believe the purpose of the auditor's work is properly summarized in the Scope section of Proposed ISA 720. Specifically, Paragraph 3 explains that a material misstatement of the other information may undermine the credibility of the financial statements and the auditor's report thereon, which we view to be the fundamental rationale for the auditor's work.

We also acknowledge that the auditor's work related to other information may reveal a material misstatement in the financial statements or that the auditor's understanding of the entity and its environment may need to be updated. We view these as important possibilities that also should be explicitly stated in the objectives.

We therefore recommend revising paragraph 11(c) as follows:

- c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be material misstated, because:
 - a. A material misstatement of the other information may undermine the credibility of the financial statements and the auditor's report thereon
 - b. A material inconsistency may reveal a material misstatement in the financial statements or otherwise indicate that the auditor's understanding of the entity and its environment needs to be updated.

Misstatement of the other information

We agree with the introduction of the term "misstatement of the other information". It is appropriate for use in reporting and likely to be understood by intended users. However, we believe it is important for the parenthetical explanation of "misleading" included within this definition to be consistent with the wording of Paragraph 110.2 of the IESBA Code of Ethics. We believe that a judgment about whether the other information conveys "a proper understanding of a matter" as suggested in the definition is a lower threshold and requires a substantially different perspective than determining whether the other information is misleading.

We do not agree with how materiality of misstatements is defined within the definition of "misstatement of the other information". As specifically raised in our March 2013 letter, we do not believe it is appropriate to apply the concept of materiality for the financial statement audit, as described in ISA 320, to the auditor's consideration of other information since this is not the subject matter to which this materiality concept applies. Perhaps more importantly, the definition in Proposed ISA 720 is too similar to the

concept of materiality for an assurance engagement. The current definition extends and applies the concept of materiality for a financial statement audit to the other information. We do not believe this is appropriate because neither the work effort in Proposed ISA 720 nor its scope impose an obligation on the auditor to convey assurance on the other information. Further, the current definition appears to set the threshold for a material misstatement of the other information at the same level as a material misstatement of the financial statements, whereas we would expect the threshold to be inherently higher than that for an audit or assurance engagement because the auditor is not conveying assurance on the other information.

As previously noted, we believe the fundamental rationale for the auditor's work relating to other information is to address the risk that a material misstatement of the other information "may undermine the credibility of the financial statements and the auditor's report thereon", and that this principal purpose also helps to distinguish the performance of the auditor's work under Proposed ISA 720 from that of an assurance engagement as well as assist the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement.

For those reasons, we believe that the definition in paragraph 12(b) should be revised as follows:

- b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information that is necessary where such omission or obscurity would be misleading for a proper understanding of a matter). Misstatements of the other information are material if they could reasonably be expected to ~~influence the economic decisions of users~~ undermine the credibility of the financial statements and the auditor's report thereon, recognizing that the other information is only part of the overall information available to users.

Work effort

- *Consideration of consistency of the other information (Paragraphs 14(a), 14(b) and 15)*

We agree with the requirement in Paragraph 14(a) related to the auditor's consideration of whether there is a material inconsistency between the other information and the financial statements and with the requirement in Paragraph 15 for the auditor to evaluate the consistency of the other information with amounts or other items in the financial statements by performing limited procedures, the nature and extent of which are determined by the auditor using professional judgment.

We also agree with the introduction of the specific requirement in Paragraph 14(b) for the auditor to consider consistency with the auditor's knowledge obtained during the course of the audit. While this consideration may be implicit in current practice as part of the requirement in extant ISA 720 to identify material inconsistencies with the financial statements, we believe it is appropriate to explicitly state what is required of the auditor in that regard. The current environment, including the importance that users place on the other information, drives an expectation for the auditor to use the knowledge obtained during the course of the audit when reading the other information. We agree that such an "informed reading of the other information" is left to the auditor's professional judgment and that no specific procedures should be required to be performed.

- *Remaining alert for other indications that the other information appears to be materially misstated (Paragraph 14(c))*

We acknowledge that, in performing the procedures to consider whether material inconsistencies exist, the auditor may identify other matters suggesting that the other information is materially misstated, based on the auditor's knowledge beyond that obtained during the course of the audit. However, we do not view this as a principal objective of the auditor's work, but rather as a possible outcome that is consistent with the auditor's possible discovery of a "material misstatement of fact" under extant ISA 720. Accordingly, we do not view Paragraph 14(c) to be on equal footing with the requirements in Paragraphs 14 (a) and 14 (b). Therefore, we believe it would be preferable for Paragraph 14(c) to become a separate requirement (using a construct similar to that of extant ISA 720 regarding identification of a material misstatement of fact) following Paragraph 15, as follows:

- 15A. In reading the other information for the purpose of identifying material inconsistencies, the auditor shall remain alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained during the course of the audit appears to be materially misstated.

We believe that Paragraph A33 should be revised to provide application guidance to Paragraph 15A, as it relates to the auditor avoiding being knowingly associated with information that is misleading.

- *Determination of whether the other information is materially misstated*

We agree with the requirements in Paragraphs 16-20 regarding the auditor's response when a material inconsistency appears to exist (or when the auditor becomes aware of other information that appears to be materially misstated).

1.2 Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

We believe that many of the proposals in Proposed ISA 720 are capable of being consistently interpreted and applied, but there are clarifications that could be made to improve this further. The suggestions we have included in Section 1.1 would, in particular, improve the consistency of the work effort. We also have concerns about whether the reporting requirements are capable of being consistently applied, and these concerns are explained in Sections 1.3 and 1.4 below. In addition, we have the following comments about other aspects of Proposed ISA 720:

Management representations – Paragraph A19

We suggest that a first bullet be added regarding management's acknowledgment of its responsibilities for the other information, as follows:

- That management acknowledges its responsibilities for the other information that contains or accompanies the financial statements and the auditor's report thereon.

The second bullet of the suggested representations is useful when management is able provide the other information prior to the date of the auditor's report, but is not applicable when other information is obtained after the date of the auditor's report. We suggest that it be revised to also refer to information to be provided, as follows:

- That management has provided (or will provide, when available) the auditor with the final version of all other information.

We do not believe that the suggested representations in the third bullet are appropriate because the auditor is not seeking to obtain evidence beyond that required for an audit of the financial statements nor is the auditor conveying assurance on the other information. We therefore suggest that the third bullet be deleted.

We suggest adding a new bullet for management to identify the other information provided to the auditor prior to the date of the auditor's report, in order to support the identification of such other information in the auditor's report.

Terms of the engagement – Paragraph A15

We find that the guidance in Paragraph A15 could be enhanced to indicate that the engagement agreement may be used to confirm the documents that constitute the annual report and timing of their availability. It is very important to obtain management agreement that it acknowledges and understands that the auditor requires access to the other information on a timely basis in order to fulfill the auditor's responsibilities.

(Please refer to Section 3 of our letter under the heading ISA 210, *Agreeing the Terms of Engagement*⁷ for further suggestions on conforming changes to ISA 210).

Periods covered in the other information v. the financial statements and auditor's report thereon

As defined in Proposed ISA 720, the annual report provides information on the entity's operations, financial results and financial position, among other information. While we expect that the annual report will focus on the entity's most recent period (i.e., the current period) and its current activities, the other information may contain information from previous periods. We believe it is necessary to clarify in Proposed ISA 720 how the auditor's responsibilities may be affected when the other information covers multiple periods. As a general rule, we believe that the auditor's responsibilities for the other information under Proposed ISA 720 should correspond to periods covered by the auditor's report.

1.3 Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information

The introduction of auditor reporting on other information, which is intended to provide transparency of the auditor's responsibilities related to the other information, will elevate the auditor's work related to other information. However, "effective communication to users" means, in our view, more than just transparency; it also means that auditor reporting should be clear and understandable, and capable of

being consistently implemented. Although we see improvement in certain of the reporting requirements of Proposed ISA 720, we do not believe that the goal of effective communication to users has been fully achieved.

Clarity of the illustrative reporting statement

The improvements to the objectives, scope, definitions and work effort in Proposed ISA 720, with which we largely agree, as reflected in the reporting requirements, have enhanced the clarity of the illustrative reporting statement.

However, in regard to the description of the auditor's responsibilities for other information (within the third paragraph of the illustrative statement in paragraph A48), we suggest a change to the wording of the second sentence to reflect our views expressed in Section 1.2 on Paragraph 14(c) as follows:

In reading the other information for the purpose of identifying material inconsistencies, our responsibility is also to remain alert we may also become aware of for other indications that the other information not related to the financial statements or our auditor's knowledge obtained during the course of the audit appears to be materially misstated.

We have suggested the use of the terminology "may become aware of indications" as opposed to the related terminology used in the work effort of "the auditor shall remain alert for indications" because it aligns with the wording of the objective in paragraph 11 (c) and, in our view, is more understandable for reporting purposes. We also believe that it is important, and further enhances the clarity of the statement, to explain that this responsibility relates to other information that is unrelated to the financial statements or the auditor's knowledge obtained during the course of the audit.

Capability of consistent implementation

The auditor reporting model in Proposed ISA 720 presents two fundamental barriers to its ability to achieve consistent implementation:

- The variability in the content of the annual report across jurisdictions, from single documents to multiple documents, along with variability in the entities' respective reporting deadlines, whether they are listed, public interest or public sector entities, or entities that prepare an annual report on a voluntary basis
- The inclusion of auditor reporting on other information within the auditor's report, which often will be dated and issued before the other information is obtained by the auditor

We do not believe that the first barrier can be overcome at the international level. With regard to the second barrier, we agree with the IAASB's view that it is not in the public interest to withhold the auditor's report until the auditor's responsibilities under Proposed ISA 720 have been met. We believe timeliness of reporting is important to investors and users of the financial statements. We also agree with the IAASB's view that it is not possible at the international level to mandate re-issuance or amendment of the auditor's report, as it may be proscribed in certain jurisdictions. We therefore understand the IAASB's approach, in Proposed ISA 720, to focus on maximizing the transparency that can be achieved in the auditor's report based on the other information obtained prior to the date of the report. However, doing

so will likely result in a significant degree of inconsistency in auditor's reports, such that some auditor's reports will include reporting on other information, while others will not. We are not convinced that the benefits of transparency outweigh the inconsistencies in reporting on other information (and the possible confusion for users) that more likely than not will arise in practice.

Our comments and concerns on the specific auditor reporting proposals and elements of the illustrative reporting statement are as follows:

➤ *Description of auditor's responsibilities*

Paragraph 21 (c) of Proposed ISA 720 requires a description of the auditor's responsibilities with respect to the other information when the final version of all or part of the other information has been obtained prior to the date of the auditor's report. We believe that a description of the auditor's responsibilities for the other information should be included in the auditor's report whenever Proposed ISA 720 applies (i.e., regardless of the timing of receipt of the other information). In our view, being silent in the auditor's report when those responsibilities apply, irrespective of when the other information is obtained, is not a transparent communication to users.

➤ *Reporting when an uncorrected material misstatement has been identified*

We view the proposal to report material misstatements that exist prior to the date of the auditor's report as equivalent to Paragraph 10(a) of extant ISA 720, which requires the auditor to include in the auditor's report an Other Matter paragraph describing a material inconsistency. However, we note that extant ISA 720 does not require any reporting in the auditor's report for material misstatements of fact.

In current practice, we believe that auditor reporting of material inconsistencies identified in other information is quite rare. Nevertheless, we agree that if a material misstatement of the other information exists and is not corrected prior to the date of the auditor's report, the auditor should include a description of that matter in the auditor's report under Proposed ISA 720.

➤ *Reporting when other information has been obtained prior to the date of the auditor's report and no material misstatements have been identified*

In principle, we acknowledge that when other information is obtained prior to the date of the auditor's report and no material misstatements of the other information exist, the auditor should be able to describe the other information in scope and the responsibilities of the auditor, and to state in the auditor's report that there is nothing to report. However, we remain concerned about, and do not support, the auditor making an affirmative statement in the auditor's report because we believe that there is a risk that investors and users could presume assurance is being conveyed on the other information, no matter the caveats given.

However, it is more likely than not that practice will vary. In some jurisdictions, reporting on the other information will be the exception rather than the rule because the other information typically will not be available until after the date of the auditor's report. In other jurisdictions, practice will be mixed. In both cases, we believe that the IAASB's goal of transparency and effective communication to users

about the auditor's responsibilities relating to other information will not be met. In addition, it would seem that auditors that are able to report on other information in their auditor's report are being held to a higher standard than those that are not able to do so.

Achieving consistency in reporting at the jurisdictional level

Notwithstanding our concerns about the inherent inconsistencies in an auditor reporting model for other information at the international level, we believe that consistency in auditor reporting on other information may be best achieved at a jurisdictional level in many cases.

Specifically, when law or regulation dictates an annual report filing date or issuance deadline, we believe that all audits of entities subject to that regulation should have consistent auditor reporting on other information. Consistency can be obtained in the description of the other information in scope, the auditor's responsibilities for the other information, including required responses when material misstatements of the other information exist, and when considered necessary, an appropriate affirmative statement.

In addition, we see the following potential areas of additional flexibility that jurisdictions have in auditor reporting on other information:

- *A cut-off date for reporting on other information other than the date of the auditor's report may be able to be applied.* For example, some jurisdictions have the concept or could implement the concept of a "report release date" which is a date after the date of the auditor's report when the auditor's report is released to users. Through such an approach, auditors may have the ability to complete their work on the other information and still include related reporting within the auditor's report after the date of the auditor's report but before the release of the report to users.
- *The ability to differentiate reporting requirements within a jurisdiction based on, for example, the type of entity or the documents that constitute the annual report.* In a given jurisdiction, reporting deadlines and what constitutes an annual report may vary based on the type of entity, or the documents that make up the annual report may have different filing deadlines. Consistency across a type of entity or document may be able to be obtained in these circumstances by a jurisdiction customizing the reporting requirements for other information based on the expected nature and timing of the documents.
- *The ability to customize the reporting statements when assurance is required to be conveyed on certain components of the annual report.* Some jurisdictions already have implemented requirements for the auditor to convey assurance on a component of the other information, for example, a management report. In this situation, it is important that the auditor reporting is clear as to the components subject to a separate assurance requirement. The individual jurisdictions are best placed to determine the appropriate reporting in these circumstances.
- *The ability to implement subsequent reporting.* Some jurisdictions may be able to allow for reissuance or amendment of an auditor's report if the auditor determines that a material misstatement in the other information exists after the date of the auditor's report. In the case when

all other information is typically available after the date of the auditor's report, a jurisdiction may also be able to implement a subsequent form of auditor reporting on the other information.

Our suggested approach to auditor reporting on other information

Due to the significant barriers to achieving consistency in auditor reporting at the international level, we suggest an alternate approach for Proposed ISA 720 as follows:

- Include a description of the auditor's responsibilities in all auditor's reports when ISA 720 applies.
- Identify in the auditor's report the other information obtained and read by the auditor prior to the date of the auditor's report.
- Retain the exception-based reporting model that would require the auditor's report to include a material misstatement of other information that has been identified but not corrected prior to the date of the auditor's report.
- Include application material that acknowledges that additional reporting requirements may be imposed by jurisdictions, through law or regulation or other means.
- Conduct a post-implementation review to survey the implementation of auditor reporting on other information at the jurisdictional level and determine whether amendments to the international reporting model can be made that will improve the model, but yet retain consistency.

Our suggested illustrative auditor reporting statement

We suggest the following statement of auditor's responsibilities (marked to the statement presented in Paragraph A48) relating to other information to be included in all auditor's reports when Proposed ISA 720 applies:

~~The other information obtained at the date of this auditor's report is the [information included in the X report, other than the financial statements and the auditor's report thereon.]~~

Other information obtained at the date of this auditor's report includes the following:

~~We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon. [Moved to end]~~

Management is responsible for the preparation of the other information. Our responsibility is to read ~~this~~ the other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information for the purpose of identifying material inconsistencies, ~~our responsibility is also to remain alert for other~~ we may also become aware of indications that the other information not related to the financial statements or our auditor's knowledge obtained during the course of the audit appears to be materially misstated. If we determine that the other information is materially misstated, we are required to report that fact. ~~We have nothing to report in this regard. We have~~ are not responsible for auditing ~~ed~~ the other

information and accordingly do not express an opinion or any form of assurance conclusion thereon.

Our suggested illustrative reporting statement includes: an identification of the other information obtained and read by the auditor prior to the date of the auditor's report; a description of the auditor's work effort; and a contrasting statement to clarify what the auditor is not responsible for. The above statement includes our suggested edit to the description of the auditor's responsibilities as presented earlier in our letter. When a material misstatement of the other information has been identified but not corrected prior to the date of the auditor's report, the description of the auditor's responsibilities would be supplemented with a description of the identified uncorrected material misstatement.

Qualified opinion due to a material misstatement in the financial statements

Paragraph A51 states that "In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same reason." For consistent implementation in practice, we believe it needs to be clear whether the auditor is required to report material misstatements in the other information that are also related to the material misstatements in the financial statements, and which would be described in the Basis for Qualified Opinion section of the auditor's report. It also would be helpful for Proposed ISA 720 to provide an illustration of the reporting on other information under these circumstances.

Adverse opinion

We do not agree that the auditor should report material misstatements of the other information when the auditor expresses an adverse opinion on the financial statements. If a material misstatement in the other information exists, we believe it is appropriate for the auditor to discuss the matter with management and take actions necessary in the circumstances, but that auditor reporting on such a material misstatement would overshadow the adverse opinion on the financial statements.

1.4 Whether you agree with the IAASB's conclusion to require the auditor to read and consider information obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

Yes, we agree that the auditor should have responsibility to read the annual report and perform limited procedures in accordance with Proposed ISA 720 regardless of the timing of availability of such information to the auditor. Because the annual report has a primary purpose of providing information and commentary about the financial results and financial information of the entity, it inherently has a direct relationship to the financial statements and the auditor's report thereon, and the auditor should have the responsibility to read the annual report and consider whether a material misstatement of the other information exists that would undermine the credibility of the financial statements and auditor's report thereon.

We also agree that Proposed ISA 720 should not require the identification in the auditor's report of information to be obtained after the date of the auditor's report or subsequent reporting on such other information. Due to the barriers to a consistent auditor reporting model at the international level as we described in Section 1.3, we do not believe it is viable for Proposed ISA 720 to prescribe any reporting related to other information obtained after the date of the auditor's report.

2. Responses to other matters on which the IAASB is seeking comments

Effective Date—Recognizing that the proposed ISA results in changes to the auditor's report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB's Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

As we commented in our March 2013 letter to ED-720 (2012), we believe that given the introduction of auditor reporting in Proposed ISA 720, which has been positioned as a component of the IAASB's broader auditor reporting project, we are supportive of the alignment of the effective date of ISA 720 (Revised) with the revisions to the standards resulting from the auditor reporting project.

3. Comments on proposed consequential and conforming amendments

➤ *ISA 210, Agreeing the Terms of Audit Engagements*

We agree with the proposed amendment to the Example of an Audit Engagement Letter. However, we do not believe that this amendment alone reflects the importance of management's agreement that it acknowledges and understands that the auditor requires access to the other information on a timely basis in order to fulfill the auditor's responsibilities under Proposed ISA 720, and possible implications for the auditor's report. Specifically, we suggest the addition of application material to Paragraph 6(b)(iii)(b) to explain that additional information that the auditor may request for the purpose of the audit includes the other information, as well as suggesting that the auditor include in the letter the agreed documents and timing of their issuance, and the implications for the auditor's report.

Further, we believe that, if the auditor expects to obtain other information after the date of the auditor's report, the terms of the audit engagement should also specifically acknowledge these responsibilities and describe the actions necessary if the auditor determines that a material misstatement of the other information exists after the date of the auditor's report.

➤ *ISA 230, Audit Documentation*

We do not agree with the proposed amendment to paragraph A24 of ISA 230 and suggest that it be deleted. In addition, we suggest that paragraph 24 of Proposed ISA 720 be deleted. It should be left to the auditor's judgment, guided by the requirements in ISA 230, to determine what the auditor should

retain in the audit documentation in support of the limited procedures performed on the other information.

➤ *ISA 260, Communication with Those Charged with Governance*

We agree with the proposed amendments to ISA 260. As the terms of the audit engagement are not required to be shared with those charged with governance (unless they are involved in approving them), we believe it would also be helpful for the application material to indicate that, if the auditor retains responsibility for other information obtained after the date of the auditor's report, the auditor should be encouraged to communicate these responsibilities. The application material could also describe the actions, applicable to the jurisdiction, that the auditor is required to take if a material misstatement of the other information is identified after the date of the auditor's report. This could be accomplished by sharing the audit engagement letter if such responsibilities and actions are described therein.

➤ *ISA 450, Evaluation of Misstatements Identified during the Audit*

We agree with the proposed amendments to ISA 450.

➤ *ISA 500, Audit Evidence*

We agree that the meaning of "other information" in the definition of audit evidence is unclear, and that this reference did not intend to equal "other information" as defined in ISA 720. However, the proposed amendment may not achieve the clarity that is being sought. Specifically, we believe that the "other information" referred to in the definition of audit evidence is information from sources other than the accounting records. We recommend that the definition be amended further to reflect this as follows:

- c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements as well as ~~other types of~~ information obtained from other sources.

➤ *ISA 560, Subsequent Events*

We agree with the proposed amendments to ISA 560. Such amendments clarify that the auditor's responsibilities relating to the other information after the date of the auditor's report are not subsequent events procedures.

➤ *[Proposed] ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements*

We agree with the proposed amendment to Paragraph A65 of ISA 700. We assume that the proposed requirement in [Proposed] ISA 700 (Revised) for the auditor to report in accordance with ISA 720 remains fundamentally unchanged.

➤ *ISA 810, Engagements to Report on Summary Financial Statements*

We agree with the proposed amendments to ISA 810.

Glossary of Terms

We agree with the definitions of annual report and other information. As expressed in the ISA 500 section above, we do not believe the revised definition of audit evidence achieves the clarity that the IAASB is seeking. In regard to the definition of misstatement of the other information, we have included specific suggestions within Section 1.1.

4. Editorial and other suggestions

ISA 720 Reference	Observation
Paragraph 5	We suggest adding “unrelated to the financial statements or the audit about which the auditor may not have any knowledge” to the end of the last sentence of the paragraph.
Paragraph 21 (d) (ii)	Add a comma as follows: ... of the other information ₁ that describes...”
Paragraph A2	The last sentence of this paragraph may be better placed as the opening sentence in paragraph A16.
Paragraph A4	We suggest the paragraph be reworded as follows, “ <u>A</u> documents that <u>is</u> are referred to as <u>an</u> integrated reports ...”
Paragraph A6	This paragraph may be better placed in the Scope section of the standard.
Paragraph A8	We suggest inserting “most” into the last sentence: “... the intended audience and purpose of the documents are matters that may be <u>most</u> relevant to the auditor’s determination ...”
Paragraph A10	We suggest rewording the second bullet to the active voice as follows: “The possible implications when <u>the auditor obtains</u> the other information is obtained after the date of the auditor’s report.”
Paragraph A11	We suggest rewording the third bullet to the active voice as follows: “When other information <u>the auditor expects</u> is expected to be obtained <u>the other information</u> after the date of the auditor’s report.”
Paragraph A12	Amend the wording to read: “ Where <u>When</u> those charged with governance are to approve the other information”
Paragraph A14	Amend the wording to read: “There may be circumstances where <u>when</u> ...”
Paragraph A15	We suggest rewording as follows because we do not view the reporting of a material misstatement of the other information in the auditor’s report to be a “revision” to the auditor’s report: “...enables <u>management to make</u> any revisions that are found to be <u>may be</u> necessary to the financial statements, the auditor’s report, or the other information prior to their issuance, <u>and enables the auditor, when necessary, to determine the implications for the auditor’s report.</u> ”
Paragraph A16	We suggest deleting the word “would” in the first sentence, so that it reads as follows. “... on which the auditor would <u>performs</u> procedures in accordance with this ISA.”
Paragraph A19	We suggest adding “(or will provide)” to the second bullet, as follows: “That management has provided <u>(or will provide)</u> the auditor...”
Paragraph A21	We suggest the term “individuals” in the last line of the opening paragraph as well as the second bullet be changed to “members of the engagement team” to align with the definition of “auditor” in ISA 200.

ISA 720 Reference	Observation
Sub-heading above Paragraph A22	Reference also should be made to Paragraph 15 in this sub-heading.
Paragraph A24	Amend the second bullet to, "... the other information to which they <u>it</u> relates."
Paragraph A25	Amend wording as follows: "when relevant given <u>to</u> the nature of the other information..."
Paragraph A26	We suggest deleting this paragraph as it is redundant to the third bullet of paragraph A23.
Paragraph A28	We suggest simplifying the second sentence as follows: "... which includes such matters as obtaining an understanding of: "
Paragraph A31	We suggest simplifying as follows: " For example, † The auditor may be able to ...procedures carried out during the audit, for example such as, the reading of minutes..."
Paragraph A34	We suggest replacing "support" with "information or explanations" in the first sentence, as support seems to suggest that audit evidence is being sought by the auditor: "...may include requesting management to provide support <u>information or explanations</u> for the basis of..."
Paragraph A42	We suggest amending the second sentence as follows: "In such cases, the auditor may issue a report to <u>an appropriate authority, such as the legislature,</u> providing details ..." because the legislature may not be the appropriate authority in all jurisdictions.
Paragraph A43	We suggest reworking this paragraph as follows, to make it clearer: "If <u>the auditor determines that the</u> other information is obtained after the date of the auditor's report, the auditor determines that it is materially misstated, and management agrees..."
Paragraph A44	We suggest simplifying as follows: "Taking appropriate action when the other information is obtained after the date of the auditor's report and the auditor determines that a material misstatement of the other information exists requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, † The auditor may also consider it appropriate to seek legal advice..."
Paragraph A45	We suggest replacing "audit" with "engagement" in the last bullet.
Paragraph A52 and sub-heading above A52	Amend to refer to "Limitation on the scope of the audit" to be consistent with the terminology used in ISA 705.
Paragraph A54	Amend to make "financial statement" plural: "When the auditor disclaims an opinion on the financial statements..."