



Grant Thornton

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International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Via IAASB website at www.iaasb.org

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Re: Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, and Proposed Consequential and Conforming Amendments to Other ISAs

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's ("IAASB" or "Board") Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, and the Proposed Consequential and Conforming Amendments to Other ISAs. We support the proposed, revised standard and the proposed consequential and conforming amendments and also commend the IAASB for carefully considering the responses received in connection with the previous exposure draft and for its decision for re-exposure. We believe that the Board has achieved an appropriate balance with respect to the auditor's performance and reporting responsibilities and stakeholder needs for more clarity and global consistency.

We respectfully submit our responses to the Board's requests for comments and our specific-paragraph level comments, which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Maria Manasses, Managing Director – Auditing Standards, Grant Thornton LLP, U.S. member firm of Grant Thornton International Ltd, at Maria.Manasses@us.gt.com or at +1.312.208.4655.

Sincerely,

Kenneth C. Sharp
Global Leader – Assurance Services
Grant Thornton International Ltd

Enc Responses to request for comments
Specific paragraph-level comments

Responses to request for comments

The following provides our comments and recommendations in response to the IAASB's requests for specific comments included in the Explanatory Memorandum.

1. Whether, in your view, the stated objectives, the 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.

We believe that the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort adequately describe and set forth appropriate performance and reporting responsibilities for the auditor in relation to other information. We have enclosed paragraph-level comments that we believe will enhance the clarity, consistency, and understandability of the proposed, revised standard and the proposed consequential and conforming amendments.

With respect to the definitions, we believe that the Board has indirectly defined what constitutes a material misstatement of other information by including the last sentence within the definition of a "misstatement of other information." However, materiality with respect to other information may be addressed by the requirements related to the preparation of such information. Accordingly, consistent with how the concept of materiality is addressed in ISA 320, *Materiality in Planning and Performing an Audit*, we believe that the last sentence should be eliminated from within the definition of a "misstatement of other information" and that the proposed, revised standard describe the characteristics of materiality more broadly, considering the various types of other information. In this regard, it may be useful to focus on matters such as the following within the introduction section or application guidance:

- Materiality is conceptual and based on the common needs of users as a group
- Judgments about materiality take into account the specific circumstances, considering whether users would be influenced by the inclusion or correction of the misstatement
- Judgments about materiality may be more dependent on qualitative versus quantitative considerations, such as the relevance and reliability of the information

- Misstatements may need to be evaluated within a range of reasonableness, considering the other information may be both historical and forward-looking.

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

Generally, we believe that the proposed, revised standard and the proposed consequential and conforming amendments are capable of being consistently interpreted and applied. The definition of an “annual report” is broad enough to allow for differences in law, regulation, or custom across jurisdictions. The proposed, revised standard also provides flexibility with respect to the limited procedures required by paragraph 15. It will be key, however, for the Board to consider user reactions and feedback via a post-implementation review.

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.

We support the direction in which the Board has concluded to require reporting on other information and believe it will result in effective communication to users regarding the auditor’s work relating to other information. In particular, we agree with (a) only referring to the other information obtained prior to the date of the auditor’s report, (b) indicating that the auditor has not audited the other information and does not express an opinion or any form of assurance conclusion thereon, and (c) generally describing the auditor’s responsibilities to read the other information, to consider whether there is a material inconsistency, and to state that, if the auditor determines that the other information is materially misstated, the auditor is required to report that fact. We do, however, suggest eliminating the statement that the auditor is also responsible for remaining alert for other indications that the other information appears to be materially misstated; as such disclosure may be misunderstood by users. In this regard, please see our paragraph-level comment on paragraph 14(c), which indicates that such responsibility would be executed in connection with the procedures in paragraph 14(a) and (b) to read and consider whether there are material inconsistencies. In addition, eliminating this statement would streamline the reporting requirements.

We have also enclosed several paragraph-level comments related to the auditor’s reporting responsibilities for further consideration by the Board.

4. Whether you agree with the IAASB’s conclusion to require the auditor to read and consider other information only 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.

As indicated in our response to the previous question, we agree with the IAASB’s conclusion not to require identifying in the auditor’s report other information that is

obtained and read after the date of the auditor's report or to require subsequent reporting on such other information. We believe that requiring subsequent reporting on other information in such circumstances would introduce significant, unwarranted complexities in practice.

In this regard, we note that the first bullet of paragraph A45 refers to the potential for reissuing the auditor's report when the auditor determines that a material misstatement exists in the other information obtained and read after the date of the auditor's report. Such reissuance has report dating implications that could cause confusion with respect to the date through which the auditor has considered the effect of subsequent events on the financial statements. If this application guidance is retained, we believe that the Board should provide additional application guidance in regards to the date of the auditor's report and the appropriateness of dual-dating the auditor's report in certain situations and where permitted. For example, it may be appropriate, depending on the nature of the material misstatement and the circumstances, for the auditor to state in the auditor's report that the auditor has not performed any procedures with respect to the audited financial statements subsequent to the date of the auditor's report. We do note, however, that the Board may need to consider the potential ramifications related to the auditor's independence.

Specific paragraph-level comments

The following provides certain specific paragraph-level comments on the proposed, revised standard and related consequential and conforming amendments for the Board's consideration.

Proposed ISA 720 (Revised), <i>The Auditor's Responsibilities Relating to Other Information</i>	
3	The last sentence in this paragraph addresses the fact that material misstatements may inappropriately influence the economic decisions of users. However, the sentence refers to "users for whom the <i>auditor's report</i> is prepared [emphasis added]." Although we believe that the last sentence is not necessary given the discussion related to material misstatements of the other information undermining the credibility of the financial statements and the auditor's report thereon, if this sentence is retained, it should also refer to the financial statements being prepared for users.
8	This paragraph appropriately indicates that the auditor's responsibilities under the proposed, revised standard do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information. It may be helpful to acknowledge situations in which the auditor is engaged to perform an assurance engagement on some or all of the other information in conjunction with the audit of the financial statements. In such situations, it would seem inappropriate to subject the auditor to the performance and reporting requirements in the proposed, revised standard if the other information was covered by the assurance engagement. The Board may further deliberate whether it would be necessary for the auditor to refer to the auditor's assurance report.
14(c)	Although we understand why the Board believes it was necessary to include a specific requirement for the auditor to "...remain alert for other indications that the other information appears to be materially misstated," we believe that such responsibility would be executed in connection with the procedures performed to meet the requirements in paragraph 14(a) and (b). In our view, it would be appropriate to frame such a requirement in this context. Leaving this as a separate requirement infers that the auditor has additional performance as well as documentation responsibilities.
16, 20	We believe that the term "discovers" may be more appropriate than the term "identifies" with respect to material inconsistencies that appear to exist.
18	We suggest moving the term "considering" in paragraph 18(a) to the introductory text after the term "including." Otherwise, withdrawal from the engagement is always required where such withdrawal is possible under the applicable law or regulation.
22	This requirement relates to situations when the auditor's opinion on the financial statements is modified. Since the auditor is not required to report on other information when the auditor disclaims an opinion on the financial statements, we suggest replacing the reference to a "modified" opinion with a reference to a "qualified or adverse" opinion. See our comments on paragraph A54 relative to situations when the auditor disclaims an opinion on the financial statements.
23	We question the clarity of the auditor's reporting responsibilities, considering the requirements

	<p>in paragraphs 46 and 47 of proposed, revised ISA 700, <i>Forming an Opinion and Reporting on Financial Statements</i>. We believe that paragraph 46(h) of proposed, revised ISA 700 should specifically refer to paragraph 23 of the proposed, revised standard ISA 720.</p> <p>In addition, it is unclear as to whether the minimum requirements in paragraph 23 of the proposed, revised standard ISA 720 would also apply to auditor's reports for audits conducted in accordance with both auditing standards of a specific jurisdiction and the ISAs. This is because paragraph 47 of proposed, revised ISA 700 refers to paragraph 46 of proposed, revised ISA 700, and the proposed, revised standard ISA 720 is silent with regard to such auditor's reports. Accordingly, we believe that paragraph 23 of proposed, revised ISA 720 needs to also address the minimum reporting requirements that apply to auditor's reports in those situations.</p>
A6	<p>This paragraph addresses situations in which disclosures required by the applicable financial reporting framework are located outside of the financial statements. We agree that such disclosures would not constitute other information. We note, however, that the auditor would need to carefully consider reporting on other information in such situations so as not to infer in the auditor's report that the information was not audited as part of the audit of the financial statements as a whole. Accordingly, it may be helpful to include additional application guidance related to describing the other information in the auditor's report in such situations.</p>
A19	<p>We agree that it may be useful for the auditor to request additional representations from management with respect to other information. In addition to the matters addressed in this paragraph, we recommend that the Board include a representation indicating that management will provide the final version of all of the other information to users of the financial statements and the auditor's report thereon.</p>
A21	<p>To align with the objectives and requirements of the proposed, revised standard, in the second bullet, we suggest replacing the phrase "to identify inconsistencies" with the phrase "to read and consider whether there are material inconsistencies."</p> <p>In addition, we believe that the last bullet may result in a change in practice relative to obtaining the assistance of a component auditor, as the reference to "is necessary" infers a greater responsibility to do so. We prefer eliminating the last bullet and more simply including the consideration of component auditors in the second bullet.</p>
A26	<p>This paragraph seems duplicative of the guidance provided in the third bullet of paragraph A23.</p>
A34	<p>In the first sentence, we recommend adding the phrase "that appears to exist" after the words "material inconsistency" in order to be consistent with the related requirement in paragraph 16.</p>
A40	<p>We agree that, in extremely rare circumstances, management's failure to correct a material misstatement in the other information may call into question management's integrity and ethical values and the reliability of audit evidence in general. However, we question the appropriateness of the guidance provided in this paragraph and its consistency with the guidance provided in paragraphs A23 to A25 of ISA 580, <i>Written Representations</i>, which primarily refer to withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. It may be best to refer to the guidance provided in ISA 580.</p>
A45	<p>In the second bullet, we suggest referring to the "financial statements" (see our comments on paragraph 3). We also suggest referring to the auditor's consideration of relevant ethical requirements.</p>
A46	<p>We agree that, in reading the other information, the auditor may become aware of new information that has additional auditor implications. It would be helpful if the bulleted items were put in the appropriate context relative to whether the other information was obtained and read prior to or after the date of the auditor's report.</p>
A48	<p>Within the illustration, we recommend eliminating the reference to "and the auditor's report thereon." Since reporting on other information is included in the auditor's report, we feel the reference to the auditor's report is redundant and unnecessary.</p>
A49	<p>This paragraph illustrates reporting on other information when the auditor has determined that a material misstatement of the other information exists. We request that the Board consider including additional language in the auditor's report indicating that the auditor's opinion on the financial statements is not modified with respect to this matter.</p>
A52	<p>This paragraph illustrates reporting on other information when the auditor expresses a qualified opinion on the financial statements due to a scope limitation. With respect to the scope</p>

	<p>limitation, the illustration states "...we are unable to consider whether management's description of this matter in the other information is materially misstated." We believe that this language can be read as mischaracterizing the auditor's responsibilities. The objectives of the auditor in the proposed, revised standard are to consider whether there is a material inconsistency and to respond appropriately when the auditor identifies that such material inconsistencies appear to exist. Accordingly, we suggest the Board consider alternative language that more simply indicates that, "...because of the significance of the matter, it is inappropriate for the auditor to consider whether there is a material inconsistency."</p>
A53	<p>It may be helpful to illustrate how the auditor might modify the statement required by paragraph 21(d) when the auditor expresses an adverse opinion on the financial statements. In such cases, the identified misstatements are both material and pervasive to the financial statements and reporting on the other information can be misleading, particularly if the auditor were to indicate that the auditor had "nothing to report regarding the <i>remainder</i> of the other information (emphasis added)" similar to the illustration in paragraph A52.</p>
A54	<p>We support the requirement in proposed ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i>, not to include a section in the auditor's report addressing the reporting requirements related to other information when the auditor disclaims an opinion on the financial statements. We agree that reporting on other information in such circumstances may not only overshadow the disclaimer of opinion on the financial statements but also increase the expectation gap in relation to the other information.</p> <p>However, it is unclear whether the performance requirements in the proposed, revised standard would apply when the auditor disclaims an opinion. If it would be inappropriate for the auditor to report on material misstatements in the other information, it would also seem inappropriate to require the auditor to consider whether there is a material inconsistency, as there would be no basis for doing so due to the pervasiveness of the scope limitation.</p>

Proposed Conforming and Consequential Amendments to Other ISAs

ISA 210	<p>With respect to the expected form and content of the auditor's report, the example audit engagement letter was revised to indicate that the auditor includes, if applicable, the reporting requirements regarding other information in accordance with the proposed, revised standard. We believe that the proposed revisions can be misread with respect to what is required to be included in the audit engagement letter – a reference to the reporting requirements or the reporting requirements themselves. Nevertheless, our preference would be to more simply refer to the matters that may be included, such as reporting related to other information. The auditor need not detail the "reporting requirements" or make reference to the requirements in the proposed, revised standard in the audit engagement letter.</p>
ISA 700	<p>We suggest modifying paragraph A65 to refer to supplementary information "not required by the applicable financial reporting framework." This distinction is helpful for those jurisdictions, such as the United States, that impose certain requirements related to unaudited supplementary information that is required by the applicable financial reporting framework to accompany the financial statements.</p>
ISA 810	<p>The proposed, revised standard defines the term "other information" for purposes of the ISAs, and this definition is linked to the entity's annual report. However, ISA 810, <i>Engagements to Report on Summary Financial Statements</i>, includes requirements regarding other information included in documents containing summary financial statements, while continuing to use the proposed, defined term "other information." The new definition in combination with the requirements in ISA 810 introduces certain complexities relative to "other information" associated with summary financial statements. Using the defined term poses questions as to whether the other information differs from that included in an annual report as contemplated in the proposed, revised standard, what is considered an "annual report" for purposes of the summary financial statements, and whether the requirements in ISA 810 are potentially duplicative of those in the proposed, revised standard.</p> <p>We suggest revising ISA 810 so as not to use the defined term "other information." An alternative may be to refer to "additional information included in a document containing the summary financial statements and related auditor's report." In addition, we note that, if the summary financial statements were included in the entity's annual report, they would constitute other information; thus, the proposed revisions to paragraph 24 may cause further confusion.</p>