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International Auditing and Assurance Standards Board
International Federation of Accountants
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Dear Board Members and Staff:

**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**

Grant Thornton International Ltd (Grant Thornton) is pleased to have the opportunity to comment on the International Standard on Auditing (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.* We appreciate the International Auditing and Assurance Standards Board (Board) addressing this subject and respectfully submit our comments and recommendations.

Page 6 of the Explanatory Memorandum describes the Board's three objectives in revising ISA 720. In summary, those objectives are to improve audit quality, increase the value of the audit and narrow the expectation gap. While we support the objectives, we believe that the proposed content of the revised 720 will allow the Board to only marginally achieve these objectives. We also have a concern that some of the proposals will likely have unintended consequences that may prevent the Board from achieving their stated objectives, including the possibility of increasing the user's expectations with respect to the auditor's involvement with other information. In addition, we believe there are provisions in the extant ISA 720 that should be retained.

## Improving audit quality

The proposed ISA reflects common practice to the extent that the auditor reads other information in documents that contain or accompany the entity's financial statements. The proposed standard attempts to reflect this practice by establishing a new definition of other information. However, the proposed definition of other information that would be in-scope of proposed ISA 720 is complex and subjective. The likely outcome of the application of this definition is a significant increase in scope and a wide variation in practice, not the consistency around the world that the Board seeks.

## Increasing the value of the audit

Users need information other than financial statements for many purposes, including making investment decisions. The other information users need likely will contain a mix of different types of information (financial and non-financial) and be presented in various contexts (past, present and forward looking). Users have also expressed a need to more fully understand the responsibilities of the auditor regarding other information that is issued by an entity. However, we do not believe that the additional value to audit report users that is intended by the revised standard will exceed the incremental cost created by an increase in scope, an increase in senior personnel time as a result of the increase in scope and an increase in the timeline to fulfill the requirements in the proposed standard.

### Narrowing the expectation gap

The proposed auditor's reporting model will, in certain cases, reflect the auditor's responsibilities under the proposed ISA and, thus, potentially help to achieve the objective of narrowing the expectations gap. However, because there will be inconsistencies with when the other information will be available, there will be many cases where the auditor will not be able to fulfill the requirements of the proposed ISA until after the release of his or her report and, therefore, will not be able to report on the other information in that report. The proposed standard is a step forward in achieving transparency but there will be many cases where transparency will not be increased.

In addition, the proposed reporting model may confuse users for two reasons. First, it will be difficult for the user to relate to the concept of material inconsistencies in light of the auditor's understanding of the entity and its environment as the user lacks context of these matters. Second, the report expresses a conclusion and, while the report states that no audit opinion or review conclusion is provided, the user will take assurance from the stated conclusion. Taking assurance based on the auditor simply reading and considering the other information is likely to increase the expectation gap with respect to the involvement of the auditor with the other information.

### Retaining the strengths of the extant standard

We believe that the extant standard has strengths that the Board should attempt to retain.

The first is the clarity achieved by the extant standard's use of a misstatement of fact and that an inconsistency is one that contradicts information contained in the financial statements. These concepts are understood by preparers, users and auditors. For example, users can understand the concept of other information being misstated because it contradicts the content of the financial statements. It is difficult for the user to understand the concept in the proposed standard where the other information is misstated because it is not consistent with the auditor's knowledge of the entity and its environment acquired during the audit. In the extant standard, the elements being compared (the other information and the financial statements) are known to the user. In the proposed standard, the user may have knowledge of the other information, but is not likely to have an understanding of the auditor's knowledge of the entity and its environment acquired during the audit.

A second strength of the extant standard is the definition of when the other information is materially misstated. The proposed standard introduces another concept of materiality into the audit engagement because the auditor needs to consider whether misstatements in the other information could affect the economic decisions of users and needs to base this determination on the auditor's understanding of the entity and its environment acquired during the audit. This judgment is particularly difficult as guidance on determining such materiality is absent as is a framework upon which to judge misstatements in the completeness, neutrality and accuracy of the other information. The extant standard avoids these complexities by focusing the user's and auditor's attention on the consistency of the other information with the financial statements rather than being based on the auditor's understanding of the entity and its environment acquired during the audit.

Details of the above recommendations and our responses to the Board's request for specific comments are provided in Appendix I.

We would be pleased to discuss this letter with you. Please contact Richard Wood at (905) 466-8710 if you have any questions.

Sincerely,

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

# Appendix 1

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?**

   Grant Thornton believes that strengthening the auditor's responsibilities with respect to other information is in the public interest. In addition, an enhanced understanding of the auditor's role with respect to other information (provided through an expanded audit report) increases transparency, which is also in the public interest. However, we are not convinced that the proposed increase in scope of other information the auditor would consider is responsive to the needs of users or in the public interest or that the increased cost necessarily exceeds the limited benefit that users will obtain from an increased scope.

   Our view is that users have more interest in the auditor providing assurance on certain other information than they have in the auditor scoping in more information into the existing model. The existing model provides users with no assurance on other information that may be key to their decision making process. Users emphasize certain key performance indicators that frequently are partly derived from measurements contained in the financial statements and information that is not. For example, average sales per customer and same-store sales information can significantly drive a company's cost of capital. Users value these data points and therefore may value assurance that this information is complete, neutral and free from error.

   We also are concerned that the conceptual change being introduced in the proposed standard will not be understood by auditors or by users. The conceptual change is moving from an approach where the auditor considers whether the other information contradicts the financial statement to an approach where the auditor needs to consider whether there are inconsistencies between the other information and the auditor's knowledge of the entity that "could reasonably be expected to influence the economic decisions" of the users.

   We believe that the change is difficult to understand by auditors as the proposed approach introduces another concept of materiality and there is no guidance on how to determine this materiality. Further, there is no framework upon which to judge whether the other information, in addition to being relevant, is complete, neutral and free from error – attributes that affect the user's determination that the inconsistency would influence their decisions.

   The context of the extant standard is the audited financial statements (something that is known to the users). The context of the proposed standard is the auditor's knowledge of the entity, something that is not known to the users and something that varies significantly from audit to audit. We therefore believe that the change is difficult to understand by users as the context of the auditor's knowledge of the entity is not known to the users.

   We feel that the additional value to audit report users that will be created by the revised standard may not exceed the increment cost created by an increase in scope, an increase in senior personnel time as a result of the increase in scope and an increase in the timeline from the extant standard. Overall, we feel the potential benefits of the Board's proposals do not outweigh their potential unintended consequences, including increased cost, and therefore many of the proposed changes to the extant standard are not in the public interest.

We encourage the Board to consider whether there is a need to publish an assurance standard on other information to respond to the specific needs of users seeking assurance on other information or whether ISAE 3000 is sufficient for this purpose. Perhaps the need for a specific standard could be assessed by asking a question as part of the exposure of amendments to ISA 700.

**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?**

Grant Thornton agrees that the standard should reflect the common practice to consider other information in addition to the information included in a document containing the audited financial statements. However, we believe the Board's attempt to define this information is broad and subjective and therefore will introduce variability in practice as to what is in scope and what is not in scope. For example, the timing of when many documents are issued will likely lead to confusion as to whether a document would be considered within the scope of ISA 720. Thus a CEO's PowerPoint presentation to the annual general meeting may be considered a document that is in-scope of proposed ISA 720 in some situations and not in others. Website information could also be scoped in and, if so, this content would be particularly challenging as it likely would change sometime after the release of the audit report.

There is a large variation from one entity to another in the quality and efficiency of the Information systems, processes and controls over the production of other information. There is also a wide variety of information that an entity may wish to provide to users (or users may seek) to enhance their understanding of the financial statements or the financial reporting process. The nature and type of other information varies based on factors such as industry, public sector, nature of ownership and the size of the entity.

We also believe that the nature of the proposed definition leads to other information that would be included in the scope but may not be available until well after the audit report date. This approach may introduce confusion with respect to the requirements of ISA 560. Finally, a definition of "other information" that has a high degree of specificity, such as the definition in the proposed standard, will result in the auditor being involved in information that does not add value to users.

We therefore recommend that the Board refine the recommendations to essential elements, specifically that other information be identified by management and those charged with governance at the planning stage of the engagement and that the auditor's responsibility be limited to the other information available at the audit report date. Limiting the scope to information available at the report date will help achieve the Board's transparency objective by allowing the auditor to include commentary with respect to his or her involvement with the other information in the report. We agree that the part of the definition of "other information", which states "has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process," is suitable. It should not matter whether such information is contained in a document or otherwise made available to users as long as the scope is agreed with the entity and the users clearly understand what information was read and considered by the auditor.

**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?**

The concept of initial release is understandable. However, it is not clear that introducing the concept of initial release, and another date that the entity and auditors need to manage, is in the public interest. We do not see the need for the dates contemplated by ISA 560, ISA 700 and ISA 720 to differ significantly. We are concerned that users will not understand the differences among these dates. Finally, introducing the concept that the date of initial release could significantly differ from the auditor report date may not be consistent with paragraph 10 of ISA 560, which states that "the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report" (procedures performed under 720 being audit procedures).

Our view is that another date concept will confuse users, preparers and auditors. The concept that the auditor has no obligation to perform audit procedures after the report date needs to be retained in order for the auditor to manage his or her obligations under 560. Therefore, we recommend that the Board not introduce another concept and that ISA 720 would apply to other information (contained or accompanying the financial statements and report) that is available at the audit report date.

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?**

The question appropriately recognizes that the situations where such a document would be in-scope will be rare. That said, securities regulators have the authority and responsibilities to determine the nature, timing and extent of the involvement of the entity's auditor with such documents. Also, as noted in the question, the requirements will duplicate the existing practice in many jurisdictions. Therefore, our view is that securities offering documents should be scoped out. The approach taken in the extant standard, where the ISA may be applied, adapted as needed, is preferred.

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?**

   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?**

In addition to the requirements in the extant 720, the auditor also presently has obligations under the ethical standards to not be associated with information that is false, misleading, or furnished recklessly, or that omits or obscures to the point that it is misleading (detailed in Section 110.2 of the IESBA Code of Ethics). We believe that application of the concept as proposed will be understandable to the auditor.

This phrase is also used in the illustrative proposed report and our concern with the proposed approach stems from the user's perspective and whether the user will be able to understand the phrase and the concept. We are concerned that users have limited knowledge, if any, of the nature or extent of the auditor's knowledge. Further, the auditor's knowledge varies significantly from one engagement to the next. For example, the nature and extent of the auditor's knowledge of internal control over financial reporting will vary depending on whether the operating effectiveness of controls is tested. The skills of individual auditors and the composition of the audit team also vary from audit to audit. Two auditors considering the same other information may pick up different items depending on their individual expertise and perspective. The reference to the "knowledge acquired during the audit" is therefore vague to a user and may lead to confusion in the market.

The approach in the extant standard makes an explicit link between the responsibilities of the auditor and a reference that is known and understood by the user: the audited financial statements. We therefore recommend that ISA 720 retain this concept. The concern that there may be omissions or inaccuracies in the other information based on the auditor's knowledge of the entity should continue to be covered by the fundamental principle of integrity in the ethical standards.

With respect to part B of the question, we believe that the responsibilities are clearly stated.

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 definition of "inconsistency" involves comparing two or more elements (to quote a dictionary example "a summary that is inconsistent with the previously stated facts"). The proposed definition is problematic from a user's perspective because it lacks two known comparative elements. That is, while the other information is known to the user, the user lacks an understanding of the auditor's knowledge of the entity. The comparative element needs to be something that users and auditors can understand. That element would be the audited financial statements and the report or both. We therefore recommend that definition of inconsistency in extant ISA 720 be retained.

We also believe that the present content of 9(a)(i) and 9(a)(ii) should be removed from the definition. In the context of the audit engagement, the proposed content raises the importance of the other information to a level similar to the fundamental and enhancing characteristics of the financial information presented in the entity's financial statements (which the auditor has performed extensive procedures and evaluated the results against a comprehensive framework). The knowledge acquired in the audit, the nature and extent of the procedures performed on the other information and the lack of a framework to perform an evaluation makes it very difficult for the auditor to form a conclusion and report that the other information is incorrect, unreasonable, inappropriate or presented in a way that omits or obscures information that is necessary to properly understand the matter.

The extant standard defines a material inconsistency and a material misstatement of fact by referring to the possible effect on the conclusion with respect to the credibility of the document, financial statements or auditor report. The proposed standard defines a material inconsistency by referring to what could reasonably be expected to influence the economic decisions of the users. Therefore, through the definition of material inconsistency, the Board is introducing another concept of materiality into the audit engagement. There is no application material to help auditors determine and apply this materiality. There is no framework upon which to evaluate the identified inconsistency. We therefore believe that the proposed definition would be difficult to apply in practice and will result in inconsistencies in application. We recommend that the Board reconsider this definition.

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?**

We do not believe that users will understand that "inconsistency" includes mistakes, inappropriate or unreasonable information. Please see the additional concerns described in our response to question 6.

**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?**

We believe that a principles-based approach is appropriate. The nature and extent of work with respect to quantitative items was understandable. However, the nature and extent of work in the proposed standard with respect to qualitative items was not clear. In particular, the guidance lacks application material on applying the concept of materiality to qualitative other information.

The requirement in paragraph 11 is to "read and consider." The proposed standard provides 15 paragraphs of detailed application material to try to explain this phrase. It is very likely that some people will consider the application material to be implicit requirements (especially paragraph A37).

The application material also includes references to group audits that can be viewed as creating an implicit requirement that the group engagement team will involve component auditors performing procedures related to other information (see paragraphs A42 and A43). This commentary can prove to be problematic to operationalize in practice. It also seems to go beyond the requirements in ISA 600 with respect to the component auditor's involvement in the audit of the group's financial statements.

**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?**

The categories are appropriate; however, the content appears to be written as requirements.

**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?**

No. The subjectivity associated with what could be considered in-scope plus the lack of clarity with respect to materiality may increase the extent of work beyond what may be considered necessary 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 in the proposed ISA are helpful.

**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?**

Yes. The requirements in this area are clear.

**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?**

No. We believe that users will struggle to understand the proposed language.

The term "consider" is difficult to understand without examples of what "consider" means in different scenarios. The application guidance requires several paragraphs to explain the phrase "read and consider" to auditors. It is unlikely and perhaps unrealistic to believe that the users will truly understand this expression without such context.

We believe that the expression "in light of our understanding of the entity and its environment acquired during our audit" is difficult to understand by users as the context of the auditor's knowledge of the entity is not known to the users. As mentioned in our response to question 5, the context of the extant standard is the audited financial statements (something that is known to the users). The context of the proposed standard is the auditor's knowledge of the entity, something that is not known to the users and something that varies significantly from audit to audit.

Finally, we believe if it is difficult for the user to understand inconsistencies (as defined by the proposed standard) then it is also difficult for the user to understand the expression "material inconsistencies." The context of material inconsistency and material misstatement of fact in the extant standard is grounded in the effect the misstatement has on the audited financial statement and the auditor's report. As mentioned in our response to question 6, the context of material inconsistency in the proposed standard is grounded in the effect that the inconsistency would have on a user's decisions. There is little guidance on how to determine this materiality and there is no framework upon which users or auditors can judge whether the other information is complete, neutral and free from error. We feel the context of the term in the extant standard is known and understood by users and auditors where the context of the term in the proposed standard is opaque.

**b. Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?**

No. It is clear that an audit opinion or review conclusion is not provided but it is not clear that the auditor is not providing assurance. The statement that the auditor did not identify material inconsistencies in the other information is providing some assurance or at least users will take some assurance from it. Some have read the proposed conclusion as providing limited assurance and others have read it as providing absolute assurance.

We believe that it is in the public interest to communicate the roles that management and auditors have with respect to other information. The public interest would be served by expanding the requirements of both the management's and auditor's responsibilities section of the audit report to explain management's and the auditor's respective responsibilities regarding the other information. The public interest will also be served by requiring the other information considered by the auditor to be specifically identified in this section. We do not believe it is in the public interest for the auditor to express a conclusion in his or her report with respect to the other information. Users will take assurance from this conclusion and such assurance may mislead the users given the limited work performed by the auditor.

**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 encourage the Board to consider whether there is a need to publish an assurance standard on other information to respond to the specific needs of users seeking assurance on other information or whether ISAE 3000 is sufficient for this purpose. Users may be particularly interested in assurance on other information that is a major input into their decision making process, such as key performance indicators that frequently are partly derived from measurements contained in the financial statements and information that is not. For example, average sales per customer and same-store sales information can significantly drive a company's cost of capital.

### Other Points

1. It is not clear where in the auditor's report the statement required by paragraph 16 will be placed (e.g., description of the auditor's responsibilities, other matter paragraph, somewhere else).

2. Illustrative reports would be helpful; including wording that would be included in the auditor's report when the auditor concludes that a modification of the auditor's opinion on the financial statements is required.

3. If the proposed definition of other information is retained, the Board may wish to address the situation where there are documents that accompany the financial statements that are presented to specific stakeholders (e.g. TCWG, lenders), but that are not widely distributed to other users. Such documents would likely be in scope and, if prepared at the same time as the financial statements, would be referred to in the auditor's report. However, because such documents are not widely distributed, users not receiving the documents may be confused by the auditor referring to these documents. The Board may wish to clarify its intentions with respect to such documents if it retains the definitions in the proposed standard.

4. Consequential amendments may be required to ISA 210 to reflect the responsibilities of management and the auditors with respect to the other information and to ISA 580 to reflect management representation with respect to the other information.

### Comments on Specific Paragraphs

1. If the concept of initial release is maintained, the Board may wish to examine the definition of initial release in paragraph 9(b). This definition refers to "when the financial statements and the report are first made generally available to the group of users for whom the auditor's report is prepared, often the shareholders." However, most financial statements are general purpose financial statements and the auditor is not preparing the audit report for specific users, but for a wide range of users. Consider something like "when the financial statements and the report are first made generally available to the users, often the shareholders".

2. Paragraph A18 addresses the situation where the financial reporting framework allows that information be presented outside of the financial statements (e.g., in the MD&A). We have a concern that A18 may be interpreted to mean that all of the information is not "other information." The intent was to say that the information required by the financial reporting framework that is included in such documents is not other information (e.g., risk disclosure section in the MD&A), but that the other items in the document are other information (e.g., other sections of the MD&A).