For the attention of Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
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USA

[Submitted via IAASB website]

14 March 2013

Dear Sir

IAASB 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'

We appreciate the opportunity to comment on the IAASB's proposed revision to 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'.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft (ED). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overview of our key messages

We support the IAASB's desire to 'raise the bar' regarding the value auditors can contribute to the quality of other information reported by companies. In our outreach with investors, many of them told us that they would value auditors being more involved with other information – in particular, that assurance on certain information reported by companies outside of the financial statements would be valuable.

The key question is how best to meet those needs in a meaningful way. How can the auditor's involvement with other information best serve the broader corporate reporting model and complement the respective responsibilities of management and those charged with governance within that model?

While we share the Board's motivation behind this proposed revision to ISA 720, in our view the ED is not an appropriate response to the needs that investors and other stakeholders have expressed. In its attempt to recast the model for the auditor's involvement with other information to better leverage the auditor's knowledge, the proposed standard has lost clarity in both its purpose and in what auditors are expected to do. As a result, it is ambiguous and unworkable. Perhaps even more importantly, it also risks creating an expectation gap because the proposed work effort falls far short of that necessary to meet investors' desire for meaningful assurance from the auditor's involvement with other

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information. The proposed standard is, therefore, unlikely to satisfy users' needs, while nevertheless imposing substantial (and undefined) costs on auditors.

Corporate reporting models are evolving, and the role of information other than the financial statements is gaining in importance. The roles and responsibilities of management, directors, audit committees and auditors in relation to the different elements of these new models need to be explored. We believe strongly that auditors have an important role to play in the broader corporate reporting system and fully support the Board's decision to revise ISA 720. What is needed, however, is more than a recalibration of the extant ISA 720, as is proposed in the ED.

Standing back and taking a broader view of the corporate reporting system as a whole, and the roles and responsibilities of the key players in it, we believe that users' needs would be much better met through an audit and assurance model that, as separate propositions:

- Focuses the auditor's responsibilities as part of the financial statement audit on the consistency of other information with the audited financial statements (thereby providing clear boundaries and an unambiguous work effort that supports the auditor in forming an opinion on the financial statements);
- Assists management and those charged with governance in fulfilling their broader corporate reporting responsibilities by requiring auditors to communicate to management and those charged with governance observations and insights regarding other information leveraged from the knowledge obtained in the course of the audit; and
- Designs a work effort and reporting that would deliver the assurance external users are seeking on selected other information.

In the remainder of this cover letter, we explain more fully our understanding of the assurance we believe users are seeking and why the ED does not meet those needs. We also explain why we believe the proposed work effort is inappropriate. In the appendix to the letter, we have also responded to the specific questions posed in the ED.

Our understanding of the assurance users are seeking and why the ED does not meet those needs

In our dialogue with the investor community (including the September 2012 global survey of investors, *Assurance Today and Tomorrow*[1]), many investment professionals expressed an appetite for assurance on other metrics reported by companies – in particular, information that informs their investment decision-making, such as non-GAAP and industry-specific metrics, and management/ directors' remuneration reports. The limited procedures being proposed around the consistency of the information will not provide a level of assurance that is meaningful around the key attributes – completeness, accuracy and reliability – of other information that users have said is important to them.

We fully agree that it is important for the auditor, as an integral part of the financial statement audit, to read the other information to identify any inconsistencies with the financial statements. Material inconsistencies draw into doubt the credibility of the audited financial statements and the auditor's report. There is, at a minimum, a question of association and the auditor's ethical responsibilities not to be associated with misleading information. It is also possible for the auditor to learn something that

[1] See *Assurance Today and Tomorrow*, a global survey of 104 investors in 14 capital markets at http://www.pwc.com/gx/en/audit-services/publications/investors-views-survey.jhtml

is relevant to the auditor's conclusions on whether sufficient appropriate audit evidence has been obtained and the fair presentation of the financial statements.

However, the ED goes far beyond a requirement to 'read and consider' the other information. It creates an expectation that there will be a proactive work effort with respect to the other information in order to have a basis to judge consistency. We have significant doubts whether users will understand the limited value of the proposed procedures. It will certainly not provide them with the assurance around the completeness, accuracy, or reliability of the information that we believe they are seeking. By virtue of communicating a greater involvement with the other information, however, there is a very real risk that users may believe that it does. For the reasons we explain more fully below, it becomes even more confusing when the benchmark for judging consistency moves beyond consistency with the financial statements themselves to the auditor's understanding of the entity and its environment.

We share the desire of investors and other stakeholders for enhanced corporate disclosures. The goal of better disclosures should not, however, be premised on auditors assuming responsibility to shareholders for the accuracy and adequacy of other information outside of the financial statements through an ill-defined and non-substantive work effort. In the context of the overall corporate reporting system, the remedy for poor disclosures is, in the first instance, more tangible and substantial obligations for audit committees and management for determining the accuracy and adequacy of those other disclosures, and for the consistency of those disclosures with the financial statements.

That said, we believe auditors can, and should, assist management and those charged with governance in fulfilling their broader corporate reporting disclosure responsibilities by sharing observations and insights based on their audit-based knowledge. Broadening the scope of matters communicated — potentially along the same lines that the ED seeks to embed into the auditor's report itself (i.e., matters inconsistent with the auditor's understanding of the entity and its environment) — has real merit. Importantly, management and those charged with governance have the ability to investigate and address matters brought to their attention through the auditor's observations; the auditor does not. Using such discussions as a basis for public reporting is, in our view, not appropriate.

Beyond that, there needs to be informed discussion and debate around the role that separate independent assurance around other information (or a subset thereof) could play in the broader corporate reporting model—one that is based on a meaningful and substantive work effort. Users' perceptions of the relative cost/benefits of delivering that assurance will be an important part of that debate.

Why the proposed work effort is inappropriate and unworkable

The extant ISA 720 sets out a clear and unambiguous objective — the auditor must read the other information to identify any material inconsistencies with the audited financial statements. This has three principal merits: (i) the auditor's responsibility is clear; (ii) the undertaking hinges on the auditor's unique understanding of the audited financial statements; and (iii) every auditor is tested against the same objective standard in every circumstance. We believe these fundamental qualities have been lost as a result of the proposed revisions. The outcome is a proposed standard that lacks any measurable benchmark against which to assess the appropriateness or adequacy of the auditor's work effort with respect to other information – and is therefore unworkable. In particular, we believe the following elements of the standard need to be reconsidered.

Nature and extent of proposed work effort

We support principles-based standards. To be effective, however, the principles need to provide sufficient context or framework for the judgments that need to be made when applying them. The proposed requirements do not do that.

The proposed standard fundamentally changes the meaning of the term 'consider' as it is used elsewhere in the ISAs – from a requirement to 'reflect upon', to a need to perform procedures in order to have a basis for judging 'consistency'. There is therefore a 'work effort' now being attached to the term. That could have unintended consequences, raising questions over the extent of the auditor's work effort in other ISAs.

Having established an expectation of a work effort attached to reading and considering the other information, the manner in which the requirements and associated application material have been drafted results in ambiguity and subjectivity as to what, precisely, that work effort entails. For example, the auditor is required to 'read and consider' the other information but "*exercises professional judgment in focussing [their] consideration of the other information*". This creates subjective 'degrees of consideration' that, when coupled with the subjectivity over specific procedures to be performed (as described below), will lead to significant inconsistency across audit engagements in practice.

Implied procedures

The proposed standard gives examples of potential procedures in paragraphs A37-A43, such as reconciling figures, re-performing calculations, reviewing management's supporting reconciliations or documentation etc. The proposed content suggests that the decision of whether to perform such procedures, and when, would be made based on the auditor's consideration of the nature, type and significance of the other information. This further extends the judgements surrounding the auditor's consideration of the other information, exacerbating the concern we outline above. We are also concerned that these procedures may be interpreted by some as being *necessary* when the circumstances that they describe arise in an engagement. The potential for conflict between, on the one hand, application of judgement by some auditors and, on the other, the guidance being interpreted by others as being 'required procedures' risks potentially significant inconsistencies in practice. We provide further detail in our response to question 8 within the appendix to this letter.

We are not, however, advocating that these potential procedures should be elevated to requirements, to resolve the risk of inconsistent practice. The procedures are mainly 'mechanical' in nature and, in the context of our understanding of the assurance that we have heard investment professionals express an appetite for, we question the cost/benefit of performing them – they will not provide assurance over the completeness, accuracy or reliability of other information.

Similarly, we are also concerned about how regulators, and indeed courts, will be able to interpret the IAASB's intentions regarding the expected work effort, particularly in light of the fact that they will be evaluating the auditor's work effort with the benefit of hindsight.

All of the concerns that we outline above are further exacerbated by the expansion in the scope of the basis of how the auditor discharges this work effort i.e., that the focus of the auditor's work effort is based on considering the consistency of the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, as opposed to simply the consistency of the other information with the audited financial statements. Our views on this are explained further below.

Understanding of the entity and its environment acquired during the course of the audit

The term *"the auditor's understanding of the entity and its environment acquired during the course of the audit"* comprises, as a subset, the twin elements of being alert to information that may be inconsistent with (a) the audited financial statements and (b) the auditor's understanding of the entity and its environment based on the audit. We found this both circular and confusing.

The extension of the scope of the auditor's consideration introduces a significant level of judgement, around both:

- what the auditor might reasonably be expected to know when reading the other information, and
- what level of precision, given that knowledge, is to be applied in considering what may represent a material inconsistency in that information.

While the auditor would always read the other information with the mindset of the auditor's understanding obtained during the audit, the expectation that the auditor can identify and meaningfully respond to inconsistencies in any matter, and report publicly on those matters, is a significant change.

Further, in trying to use an 'umbrella' concept of *"the auditor's understanding of the entity and its environment acquired during the course of the audit"*, the important element of reading the other information to identify inconsistencies with the audited financial statements has much less visibility. As we note in our overall messages, retaining a clear focus on the consistency of the other information with the financial statements should, in our view, be an integral part of the auditor's responsibilities.

Given these concerns, we believe the use of this broad term as a means of describing the expanded scope of the auditor's consideration of other information is flawed. We also believe there are a number of practical issues in how the revised work effort is to be discharged. We have set out these concerns in detail in the appendix to this letter in response to question 5.

Definition of 'inconsistency in other information'

We do not support the revised and expanded definition of 'material inconsistency'. In particular, we are concerned by the inclusion of quite broad subjective judgments, such as 'unreasonable' and 'inappropriate', as well as the concept of presentation that 'omits or obscures information' within the expanded definition. The inclusion of these concepts expands the definition and interpretation of the term 'inconsistency' well beyond its generally accepted meaning to most people. Determining what constitutes 'unreasonable' or 'inappropriate', or whether something has been omitted from, or otherwise obscures, other information is also highly judgemental and will be difficult to illustrate practically to help guide practitioners. Given that fact, the ability of the auditor to assess what is 'material' to users against such a definition becomes unworkable. We believe this would lead to significant inconsistency in practice and inevitably lead to questions over the work effort and conclusions reached by different auditors.

The extant standard includes the concept of a 'material misstatement of fact'. This was an easily understandable concept. We find the statement in the revised standard that *"other information that the auditor concludes is materially false or misleading is by its nature materially inconsistent"* to be itself misleading. If a matter is false or inaccurate, it should be described as such.

Documents included within the scope of the standard

We agree that expanding the scope of documents to be included needs to be directly linked to the basis on which the auditor 'reads and considers' such information - that the primary purpose of those documents is to provide commentary to enhance users' understanding of the audited financial statements or the financial reporting process, as described in paragraph A11 of the ED.

We do, however, have some concerns that the way in which this principle has been illustrated in the application material lacks clarity. Decisions about which documents may or may not be in scope rely on a considerable amount of judgment and may lead to inconsistency in practice.

We comment further in our response to question 2 in the appendix on how other information may be disseminated to users of financial statements, which we believe the standard needs to address.

Auditor communications

We believe the standard needs to define two clear levels of communication:

- To those charged with governance - with the objective of assisting management and those charged with governance in discharging their responsibilities, as we describe in our comments on page 3; and
- Publicly – through clear and effective disclosure in the auditor's report.

We support including a clear and unambiguous description of the auditor's responsibilities in the auditor's report, but the proposed wording is not sufficiently clear and will likely increase the expectations gap. Our dialogue with the investment community has shown that at least some users currently misunderstand the limited nature of those responsibilities and may believe that the auditor has greater involvement – in fact, some may believe that some or all of that other information has been audited. Explaining the auditor's responsibilities in the auditor's report, including the limited nature of them, would bring much needed clarity.

However, we are concerned that the description of the auditor's responsibilities to read and consider the other information, using terms such as 'material inconsistency', and 'understanding of the entity and its environment', could further exacerbate users misunderstanding the terms used and, thereby, drawing unwarranted assurance.

Practicalities/Consequences

The changes the IAASB is proposing are significant. The Board should not underestimate their effect on the practicalities of audit delivery, including considerations of volume of work effort and timing.

We believe the lack of clarity in the standard may also likely give rise to unintended consequences, in particular with respect to auditor liability. We provide further detail about the risks we perceive in this area in the 'other comments' section of the appendix.

In conclusion, we support the Board in trying to respond positively to what stakeholders have said about how the auditor's work can be made more valuable. As corporate reporting models evolve to better meet the needs of users for relevant and timely information for decision-making, it is vital that we challenge ourselves about how the assurance model can also evolve so that it retains its relevance and value.

However, for the reasons outlined above and explained more fully in our detailed responses to the questions in the appendix to this letter, we believe that the proposed standard is flawed – its construct lacks clarity and, as a result, the objective and requirements are not, in our view, workable in practice.

We are concerned that there would be significant unintended consequences, for users and auditors alike.

We encourage the Board to reconsider its approach and:

- redesign the standard around the work effort needed to support the auditor's opinion on the financial statements;
- consider how, within the revised standard, the auditor's observations and insights regarding the other information could assist management and those charged with governance in fulfilling their broader reporting responsibilities; and
- consider separately the work effort and reporting that would deliver the assurance external users are seeking on selected other information.

This will involve more than tweaking the current proposals. A fundamental redesign is needed if the final standard is to be robust, implementable and aligned holistically with the role and responsibilities of all of the players in the corporate reporting model.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Jamie Shannon, at jamie.shannon@uk.pwc.com or Diana Hillier, at diana.hillier@uk.pwc.com.

Yours faithfully

PricewaterhouseCoopers International Limited

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Appendix

Request for specific comments

1. **Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?**

   As we explain in our cover letter, we support the IAASB's desire to 'raise the bar' regarding the value auditors can contribute to the quality of other information reported by companies. Standing back and taking a broader view of the corporate reporting system as a whole, and the roles and responsibilities of the key players in it, we believe that users' needs would be much better met through an audit and assurance model that would both clarify and strengthen the auditor's responsibilities through separate propositions that:

   - Focuses the auditor's responsibilities as part of the financial statement audit on the consistency of other information with the audited financial statements (thereby providing clear boundaries and an unambiguous work effort that supports the auditor in forming an opinion on the financial statements);

   - Assists management and those charged with governance in fulfilling their broader corporate reporting responsibilities by requiring auditors to communicate to management and those charged with governance observations and insights regarding other information leveraged from the knowledge obtained in the course of the audit; and

   - Designs a work effort and reporting that would deliver the assurance external users are seeking on selected other information.

   In the context of ISA 720 specifically, this would involve:

   - Clarifying the auditor's responsibilities with respect to other information as part of the financial statement audit;
   - Making those responsibilities explicit in the auditor's report and including a statement on whether the auditor is aware, at the time of signing the auditor's report, of any unresolved material inconsistencies with the audited financial statements; and
   - Requiring auditors to communicate to management and those charged with governance observations and insights regarding other information, leveraged from their knowledge obtained in the course of the audit, to assist management and those charged with governance in fulfilling their broader responsibilities.

   In our view, however, ISA 720 is not an appropriate mechanism through which the needs of users regarding the completeness, accuracy and reliability of other information can effectively be addressed. That can only be appropriately achieved through the provision of a separate assurance engagement, tailored to the specific needs of the intended users i.e., an ISAE 3000 engagement.

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?**

   Please refer to our comments on page 6 of our cover letter.

   In addition, we note that the nature and extent of other information produced by entities today, and the means through which it is presented and disseminated to the users of the financial statements, has evolved. In that respect, we consider that the standard needs to address how the auditor's responsibilities should be discharged in relation to other information disseminated through electronic means, including websites or other social media.

   We have addressed the question of whether securities offerings documents should be included within the scope of the standard in our response to question 4 that specifically addresses such documents.

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?**

   In principle, we support the new concept of 'initial release'. To achieve consistent application and to avoid any misunderstanding, we do, however, suggest that enhanced application material and better examples need to be developed to illustrate the concept. We did not find paragraph A5 to be useful in that respect.

   We also recommend that additional application material be developed to further explain the difference between, and to avoid the potential scope for confusion with, this concept and the concept of the 'date the financial statements are issued' used in ISA 560 (subsequent events). This risk arises primarily from the fact that 'initial release' (ISA 720) is defined in the context of the financial statements being made available to the 'group of users for whom the auditor's report is prepared' while the 'date the financial statements are issued' (ISA 560) makes reference to the date the financial statements are 'made available to third parties'. Illustrative scenarios that clarify when these dates would be: (i) consistent or (ii) different, would be helpful.

   We recognise the practicalities relating to other information that may not be available at the date of the auditor's report, described in paragraphs A25-A27 and A55-A56. We believe the Board needs to give further consideration to the practicalities of how the auditor can provide full transparency about other information that may not have been available at the date of signing the auditor's report.

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?**

   In our view, securities offerings documents should not be included within the scope of the standard. It is the role of the securities regulators to determine the nature and extent of the work effort over such documents. They may determine that some or all of the responsibilities in ISA 720 would meet their needs, but that is their decision to make. They may conclude that an additional or different work effort is more appropriate in the circumstances.

When the auditor's report on the financial statements is included in a subsequent document, for example a prospectus, there may be both confusion about the auditor's responsibilities for other information in the subsequent document, and also possible legal implications (e.g., if the original other information could be considered to be included within the scope of the subsequent document because of the reference to it in the auditor's report).

Securities documents often contain vast quantities of information of which an auditor may not have any detailed knowledge or understanding. We are therefore also concerned that if such documents are scoped into the standard, in the limited circumstances described, there may be challenges in the auditor being able to discharge the requirements of the revised standard. For example, prospectuses are legal documents and, as we note in our comments on auditor liability at the end of this appendix, by incorporating 'omissions' into the concept of a material inconsistency, there could be an expectation that auditors could judge what might constitute an omission in the offering document when it is, in that circumstance, a matter of law.

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?

No. For the reasons we set out in our cover letter, we believe the objectives of the revised standard are not clear:

- The objective, as drafted, is fundamentally changing the meaning of the term 'read and consider' to impose a work effort as a basis for judging 'consistency';
- The proposed phrase 'in light of the auditor's understanding of the entity and its environment acquired during the audit' lacks clarity, introduces significant judgement around what auditors might be reasonably expected to know (arising from the audit) and introduces subjectivity about the level of precision with which that knowledge is to be applied;
- We also have concerns about practicalities that arise when trying to apply the concept, and the revised work effort that it entails, in practice. For example, whose knowledge is to be applied for the purposes of reading and considering the other information? There can be a number of people involved in even the smallest audit engagement and potentially many hundreds in large multi-national audits? Each member of the audit engagement team learns different information, some of which is plainly relevant to the audit, some less relevant, and some information with uncertain relevance. Some of that information will be recorded in the audit file, for the benefit of the wider team, and some will not. Only a

subset of the engagement team will be identified to read and consider the other information and different members may read different documents that constitute the overall suite of other information. Incorporating the entire engagement team's knowledge of the entity and its environment will be at best difficult, if not impossible. Given that the definition of 'the auditor' can be considered to include 'the firm' in some circumstances, the application of the requirement in practice could be even further complicated.

- With respect to (b), this important part of the responsibility is certainly less visible, and thereby potentially obscured, as a result of being subsumed within the overall 'umbrella' concept of the 'auditor's understanding of the entity and its environment acquired during the audit'. To illustrate, reference to other information that is 'materially inconsistent with the audited financial statements' is made only in paragraph 2 of the introductory text of the standard, and is not mentioned anywhere in the objectives or requirements. It is only in application paragraph A31 that the wider meaning of the term is raised again – this is too late and lacks sufficient prominence.

We believe these issues, taken together, will lead to potentially significant inconsistencies across engagements.

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?

We do not agree that the proposed definitions of 'inconsistency', now expected to include omissions, and 'a material inconsistency in the other information' are appropriate. We note in our cover letter our primary concerns, including:

- The subjectivity of judgements necessary in applying the definitions – what is 'unreasonable' and 'inappropriate'? What presentation would be considered to 'omit or obscure information'?
- By incorporating 'omissions' into the concept of a material inconsistency, there are implications in those territories where statute requires certain other information to be included in documents containing the audited financial statements. Depending on the underlying nature of that required information, auditors may not be best placed to determine omissions.
- Describing what would be considered to be a material misstatement of fact under the extant standard as a 'material inconsistency' is not, in our view, appropriate. To illustrate, including 'incorrect' within the definition of 'material inconsistency' is not intuitive and potentially misleading. Describing a matter as being 'materially inconsistent' by virtue of it being incorrect, especially when the material inconsistency is described as being 'in light of the auditor's understanding of the entity and its environment', is a very odd, and even illogical, construct that very much risks being misunderstood.

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?

No. For the reasons set out in our response to question 6 above we do not see how users could be expected to understand what the term 'material inconsistency' is intended to mean. Even if a detailed definition of the term, as included in the standard, were to be provided for users, we do not believe that this will be readily understood because the construct is so illogical.

The proposed report wording also implies that the inconsistencies are between different items of other information (by using the phrase "inconsistencies in the other information"), rather than between the other information and the auditor's knowledge of the entity and its environment (which includes the audited financial statements). We believe that the language in the report needs to better reflect the auditor's objective i.e., to identify inconsistencies between the other information and the audited financial statements. As we have noted, we believe there is a real risk that users will misinterpret the proposed description of the auditor's responsibilities and proposed statement to be included in the auditor's report, and the potential for misunderstanding the terms included therein adds to that risk.

We also find the guidance relating to what the auditor is expected to include in the proposed modified statement on other information arising from a qualified opinion on the financial statement due to a limitation on scope to be unclear. In particular, the final sentence of paragraph A62 appears somewhat contradictory to the rest of that paragraph. We include further comments on the proposed reporting implications in our responses to questions 10 and 11 below.

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?

(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?

(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?

We support a principles-based approach to the work effort required under the standard but believe that the manner in which the objectives and requirements have been drafted has resulted in a standard that fails to provide a sufficient judgment framework to make it workable.

As we explain in our cover letter and in our response to question 5, we believe the standard imposes an expected 'work effort' associated with 'reading and considering' the other information, that fundamentally changes the meaning of those terms as applied under the extant standard. However, in doing so, the standard does not adequately define the judgement framework or parameters to determine which procedures need to be performed, in what circumstances and for what purpose. The requirements and application material have been drafted in a manner that we believe results in ambiguity and subjectivity in decisions to be made by the auditor that are unhelpful.

Some auditors may interpret the guidance as being purely illustrative only, while others may conclude that certain procedures need to be performed when other information of the nature illustrated by the standard exists. There is, therefore, a clear risk that the way in which this guidance is interpreted by different auditors will lead to inconsistencies in practice – potentially quite significantly inconsistent.

With respect to point (b), as we note in our cover letter, we are concerned about how the detailed procedures in paragraphs A37-A43 will likely be interpreted in practice. The description of the possible procedures, although only included as application material to the standard, may be misinterpreted as being akin to required 'audit procedures', with an implicit expectation that the auditor has to obtain some new or additional evidence in relation to the other information. Yet, the auditor's objective is clearly not to design audit procedures to obtain evidence over the other information and, as noted in our overall messages above, the work effort required under the standard is not intended to, and does not, address the completeness, accuracy and reliability of the other information.

There is no doubt that the procedures would provide a level of comfort to management and those charged with governance regarding the internal consistency of the overall annual report for which they are responsible. That is why we recommend that the standard provides for a broader and more robust discussion between auditors and management and those charged with governance regarding other information. They then have the scope and authority to investigate and act on the auditor's observations and insights.

The implications for part (c) of this question stem directly from point (b). If the procedures included within the standard are interpreted by some auditor's as being 'expected' when other information of the nature described is included, then there is a risk that this leads to a clear increase in the scope of the audit, beyond that which is necessary to express the 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?

We question how meaningful the list is without any clear link back to the expectation of the auditor's work effort. It therefore has only limited value – identifying the difference between quantitative and qualitative information.

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?

Broadly, setting aside our concerns over the definition of 'material inconsistency', we find the requirements within the standard that describe the responsibilities of the auditor when identifying that there may be a material inconsistency in the other information, or when the auditor identifies that the audited financial statements may be misstated, to be 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?

(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?

With respect to (a), we do not believe this is clear and understandable for the reasons that we set out in our response to question 7 above.

While the proposed language described in (b) above is helpful, we believe it does not completely eliminate the risk that users misinterpret the extent of the auditor's involvement with the other information, in particular in light of the statement that the auditor 'has not identified material inconsistencies in the other information'.

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?

As we note in our cover letter, we believe that the changes being proposed to the standard do not meet users' needs. The limited procedures being proposed around the consistency of the information will not provide a level of assurance that is meaningful about the completeness, accuracy and reliability of certain other information that we have heard users express a wish for. We believe that external users' needs will best be met through provision of a separate assurance engagement that is appropriately scoped and agreed outside of the financial statement audit. Such engagements could address those aspects of other information on which users' have an interest in increased assurance regarding the credibility of that information.

In those territories where corporate governance frameworks are well established, a further possible response could be to require audit committees to comment on their review of the other information, with the auditor reporting by exception if those statements by the audit committee were not a fair reflection of matters regarding the other information that the auditor had discussed with them. Such a model would be entirely consistent with the fulsome discussions that are common practice today with those charged with governance and would again retain the respective responsibilities of the relevant parties to the audit.

Other Comments

Auditor liability

As we highlighted in our cover letter, there are risks of unintended consequences that may arise from the proposed revisions to the objective and work effort under the revised standard. From a legal liability perspective, the proposed standard poses the following liability-related risks:

- As we explain in our responses to the questions above, the proposed standard imposes uncertain and ambiguous obligations on auditors with respect to information presented by companies other than, but accompanying, the financial statements. Because the auditor's obligations are not clearly defined, users of the financial statements may not understand the limited scope and extent of the auditor's role, thereby leading to exaggerated expectations of the auditor's responsibilities and confusion over the company's responsibility for its own financial statements and other disclosures. Such uncertainty not only undermines the clarity of the existing corporate reporting model—in which companies are responsible for their own disclosures—but also risks imposing incremental liability on auditors.

- As we explain in our cover letter, the proposed standard is too vague and its embrace too broad, that corporate performance out of line with any statements or descriptions in the company's annual report — measured with the benefit of hindsight — could give rise to unwarranted attempts to hold the auditor liable for issues in the other information. This risk is exacerbated by the fact that, whereas the extant ISA 720 reflects an objective standard (i.e., is there anything in the company's disclosure inconsistent with the financial statements?), the proposed standard is subjective (i.e., does the auditor believe any member of the engagement team is aware of anything that might be in tension with something in a company disclosure?).

- In particular, by incorporating 'omissions' into the concept of a material inconsistency there are implications in those territories where statute requires certain other information to be included in documents containing the audited financial statements. Depending on the underlying nature of that required information, auditors may not be best placed to determine omissions. However, by virtue of the construct of the standard, they could unfairly be held responsible for any subsequently detected omission in that information.

- Risks to auditors in the context of prospectus/registration statements (as opposed to other periodic or occasional securities filings) would give rise to unintended and potentially more severe litigation risk, given that some jurisdictions impose lower thresholds for proof and/or knowledge in the context of errors in prospectuses/registration statements.

- Adoption of the proposed statement would similarly impose on auditors incremental risk of regulatory and other government sanctions for failing to meet the standard, where disclosures turned out to be misstated. Even if there were no more adverse outcomes under the proposed standard, investigations into compliance with the revised requirements would be burdensome and costly, as they would inevitably address the subjective state of mind of myriad members of an audit team.