

July 4, 2014

By email: ed.assurancestds@cpacanada.ca

Mr. Greg Shields, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto Ontario M5V 3H2

Dear Mr. Shields,

**Re: Re-exposure draft: The Auditor's Responsibilities Relating to Other Information – May 2014**

We are pleased to respond to the Auditing and Assurance Standards Board's (AASB) request for comments on the above-noted re-exposure draft and provide our thoughts and suggestions herein.

The views expressed in this submission are those of the Canadian member firm of the Deloitte Touche Tohmatsu Limited global network.

Our global firm Deloitte Touche Tohmatsu Limited will be responding to the International Auditing and Assurance Standards Board's (IAASB) exposure draft titled, Proposed International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information; Proposed Consequential and Conforming Amendments to Other ISAs*. A copy of that response will be forwarded to the AASB when available.

**Responses to the questions contained in the exposure draft**

- 1. As set out under the subheading, "Auditor's responsibilities relating to other information obtained subsequent to the date of the auditor's report," the IAASB is clarifying that the auditor's responsibilities relating to other information apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. Are you aware of any circumstances particular to Canada that would merit a Canadian amendment to deal with practical issues that may arise if the other information is obtained subsequent to the date of the auditor's report? In considering this matter, the AASB is particularly interested in comments from financial statement preparers, financial statement users (including regulators) and auditors of small and medium-sized entities with respect to practical issues that may arise.*

We support the AASB in adopting the proposed ISA 720 (Revised) and conforming amendments to other ISAs issued by the IAASB in an effort to "bring greater clarity and enhanced consistency

around the world regarding the auditor's responsibilities related to other information."<sup>1</sup> However, we have concerns regarding consistency in the application of these requirements across audits of Canadian small and medium-sized entities, particularly in situations where the other information is received subsequent to the date of the auditor's report. A number of these entities typically issue their annual report long after the financial statements and the auditor's report thereon, which would result in diverse audit reporting across similar entities and industries. As there is no requirement to identify other information in the auditor's report when obtained after the date of the auditor's report, it may not be clear to financial statement users whether auditors are aware of or have read the other information subsequently released by the entity and whether any material inconsistencies between the other information and the financial statements, and the auditor's knowledge obtained during the course of the audit, were noted. As a result, for some entities, the identification of the other information and the auditor's responsibility in relation to the other information would never be reported on. If a material misstatement is noted in the other information that is not subsequently corrected by management, there would be no practicable mechanism to report such a fact subsequent to the release of the auditor's report on the entity's financial statements. The resulting scenario would be contrary to the objectives of the proposed standard in promoting increased transparency to financial statement users regarding the other information.

Another area of concern for which the proposed standard does not address is that the auditor may be unable to perform procedures on the other information issued at a later date in situations where the auditor is no longer engaged by the entity after the completion of the current year's audit engagement. If subsequent to the issuance of the auditor's report but prior to the release of the other information, there is a change in auditors, it is not clear whether the predecessor auditor still maintains a responsibility to read the other information. Further guidance should be provided to address situations in which the auditor's responsibility with respect to the other information would cease to realign the expectations of financial statement users in those circumstances.

Aside from requiring the auditor to retain in the audit documentation, the final version of the other information, the lack of documentation requirements within the proposed ISA 720 (Revised) may result in a lack of evidence supporting the considerations made and the procedures performed by auditors in respect of their review of the other information and the overall conclusion made in the auditor's report. Furthermore, in cases where the other information is received after the auditor's report date, the lack of reporting and documentation requirements in the proposed standard, may lead to situations where the nature and extent of review or other procedures performed on the other information is less extensive than would be the case had the other information been received prior to the auditor's report date, or at least identified in the auditor's report. This could represent an area of potential inconsistency in application of the requirements across similar entities. Lastly, when the other information is received long after the auditor's report date, which as mentioned above, is typical with a number of Canadian small and medium-sized entities, it becomes increasingly difficult to comply with some of the requirements stated in CAS 230, *Audit Documentation*, specifically:

- The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (CAS 230, paragraph 14)

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<sup>1</sup> See the Explanatory Memorandum for the Proposed International Standard on Auditing (ISA) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information; Proposed Consequential and Conforming Amendments to Other ISAs* ("Proposed ISA 720 (Revised)"), page 5.

- CSQC 1 (or requirements that are at least as demanding) requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. (CAS 230, paragraph A21)
- The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. (Excerpt from CAS 230, paragraph A22)

When the other information is received not only after the auditor's report date but also subsequent to the audit file assembly date, it would be inappropriate to add a final copy of the other information to the file along with any other related documentation as determined necessary, as these modifications to the audit file would represent additional procedures performed as opposed to being administrative in nature. Alternatively, to retain a final copy of the other information in an audit file separate from the audited financial statements, to which the other information relates, would also be inappropriate, considering that the objective of reviewing the other information is to determine whether a material misstatement exists in the financial statements, or in the other information, which as stated in the Scope section of the proposed standard, "...either of which may undermine the credibility of the financial statements and the auditor's report thereon". If the procedures performed indicate a material misstatement of the financial statements exists or more simply, that the auditor's understanding of the entity and its environment needs to be updated, the documentation in the audit file may need to be adjusted and therefore, should be maintained in the same audit file.

2. *The AASB is proposing a Canadian amendment to clarify that the MD&A issued under the provisions of Canadian securities legislation is within the scope of CAS 720 (Revised). The MD&A is required by securities legislation in many Canadian jurisdictions to be filed concurrently with the reporting issuer's financial statements and is meant to complement and supplement the financial statements. Do you agree with this Canadian amendment?*

Yes, we agree with a Canadian amendment to clarify that the MD&A issued under the provisions of Canadian securities legislation is within the scope of CAS 720 (Revised) as it provides information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. For reporting issuers, the MD&A is typically issued concurrently with the financial statements prior to the release of the entity's annual report. We recommend that application guidance be added to the proposed CAS 720 (Revised) to clarify that in such circumstances, the MD&A may be the only other information in scope for the purpose of fulfilling the auditor's requirements under this standard, and would not extend to the annual report subsequently released by the entity.

3. *The AASB also considered whether the Annual Information Form (AIF) and certifications of annual filings, filed with securities regulatory authorities, are within the scope of CAS 720 (Revised). The AASB is of the view that the AIF and the certifications of annual filings do not meet the definition of an annual report as their primary purpose is not to provide owners with information on the entity's operations, and the entity's financial results and financial position as set out in the financial statements. Do you agree with the AASB's view that the AIF and the certifications of annual filings are not within the scope of CAS 720 (Revised)?*

Yes, we agree that the AIF and certification of annual filings do not meet the definition of an annual report as their primary purpose is not to provide owners with information on the entity's operations, and the entity's financial results and financial position as set out in the financial statements and thus, should not be within the scope of CAS 720 (Revised).

4. *Are you aware of any other documents commonly issued in the Canadian environment for which guidance on whether they are within the scope of CAS 720 would be useful? This includes documents issued by any type of entity, including small and medium-sized enterprises, public sector entities and not-for-profit organizations. If you are aware of such documents, please describe the nature, purpose and intended users of the document(s).*

We are not aware of other specific documents commonly issued in the Canadian environment that should be added to the scope of CAS 720 however we believe it would be useful to provide additional application guidance regarding the documents included in the scope of the proposed standard, particularly for the public sector and not-for-profit organizations where the reporting regime is typically less structured and more staggered and therefore, it may not always be clear or apparent for the auditor of such entities to determine which documents are in scope and up to which period of time the auditor assumes responsibility for identifying and reading the other information released subsequent to the date of the auditor's report.

5. *What are your views relating to the other proposed Canadian amendments?*

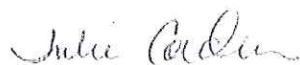
We are in support of the other proposed Canadian amendments as stated in the May 2014 Re-exposure draft: *The Auditor's Responsibilities Relating to Other Information*.

6. *Are there any other Canadian amendments that you believe the AASB should consider? If so, please describe the nature and extent of the amendments. Note that any amendments proposed would need to meet the criteria set out in the Appendix.*

There are no other Canadian amendments we propose other than those relating to the comments and concerns noted above in response to the previous questions.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Julie Corden, National Assurance Services Leader at 416-601-6374.

Yours truly,



Julie Corden, CPA, CA  
National Assurance Services Leader  
Deloitte LLP