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OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE

Exposure Draft
ISA 720 (Revised)/2012
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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

Proposed Consequential and Conforming
Amendments to Other ISAs

Issued for Comment

Response Due Date 18 January 2013

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS INVITES 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

The Malaysian Institute of Accountants (“MIA”) has approved the release of this exposure draft on 19 December 2012 for distribution to members, regulatory bodies and other interested parties for comment. The exposure draft may be modified in the light of comments received before being issued in the form of an Approved Standard on Auditing.

The International Auditing and Assurance Standards Board (“IAASB”) approved the proposed 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, for publication in November 2012.

As a member of the International Federation of Accountants (“IFAC”), MIA is obliged to support the work of IFAC by informing its members of every pronouncement issued by IFAC, to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements and specifically to incorporate IAASB’s International Standards in national auditing pronouncements.

The explanatory memorandum provides background to, an explanation, and request for specific comments of the proposed 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.

MIA looks forward to receiving comments on this exposure draft from members, regulatory bodies and other interested parties. MIA welcomes comments on all matters addressed in the exposure draft.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for MIA to be made aware of this view.

Comments should be submitted electronically by 18 January 2013.

Unless respondents request confidentiality, their comments are a matter of public record. All comments are to be directed to:

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed 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* ("proposed ISA"). The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISA in September 2012 for exposure.

Background

In recent years, there have been a number of developments in the corporate reporting environment that have led to significant changes in the nature and extent of information included in documents containing audited financial statements and the auditor's report thereon (such as annual reports). In particular:

- There has been a change in emphasis towards more qualitative disclosures as entities endeavor to put their financial information into context with the aim of achieving better communication with their stakeholders. Annual reports, in particular, now include more narrative and qualitative information, such as descriptions of the entity's business model, risk exposures and uncertainties, than in the past. Users have been attaching increasingly more importance to such information as they look for ways to better inform their analysis and understanding of the more complex areas in the financial statements.
- There has been a movement towards exploring ways in which to better integrate information in financial statements, Management Discussion and Analysis (MD&A), and other parts of an entity's public reporting package.¹
- There has been an evolution in the manner in which an entity disseminates and communicates information to its stakeholders. For example, while entities have traditionally distributed hard-copy annual reports to their stakeholders and for regulatory filing purposes, they have increasingly turned to electronic means to do so.²
- Entities also have been making increasing and more diverse use of documents other than the annual report, whether pursuant to law or regulation or voluntarily, for their external communication purposes in connection with the issuance of their audited financial statements. In many jurisdictions, for example, entities are presenting information such as management reports, or statements on corporate governance or on internal control and risk assessment, in documents *accompanying* the audited financial statements, instead of in documents *containing* the financial statements.

¹ The International Integrated Reporting Council (IIRC) is currently working on developing an integrated reporting framework to guide organizations on communicating the broad set of financial and non-financial information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates, to meet users' needs. More information on the IIRC can be accessed at integratedreporting.org.

² Relevant regulatory development include, for example, the enactment of the Australian Corporate Law Economic Reform Program Act (2004) Sections 314(4) and (5), which allow for the electronic distribution of the annual report to shareholders in place of the traditional print reports.

In light of these developments, the IAASB committed as part of its *Strategy and Work Program 2009–2011*³ to undertake a project to revise current ISA 720.⁴ In developing its strategy document, the IAASB had taken note of input received from stakeholders during both the Clarity Project⁵ and the consultation on its 2009–2011 work program regarding the need to revise the standard to ensure that it is sufficient and “fit-for-purpose” in the context of today’s financial reporting environment. This view was also largely shared by the IAASB Consultative Advisory Group (CAG).

In undertaking this project, the IAASB has also sought to:

- Extend the scope of the standard to include documents accompanying audited financial statements and the auditor’s report thereon;
- Extend the auditor’s responsibilities (i.e., the work effort) to include not only reading the other information for consistency with the audited financial statements but also reading and considering the other information for consistency with the auditor’s understanding of the entity and the environment acquired during the course of the audit. Representatives of the IAASB CAG had, in particular, noted that doing so would be in the public interest; and
- Bring transparency of the auditor’s work through new suggested auditor reporting responsibilities with respect to other information.

In extending auditor responsibilities, the IAASB has given consideration to the likely costs and benefits of alternative approaches. The IAASB believes that the proposed ISA will help:

- Improve audit quality by bringing greater consistency around the world regarding auditors’ consideration of the diverse range of information that accompanies audited financial statements and comes within the scope of the proposed ISA;
- Increase the value of the audit, without changing its scope, in a cost beneficial manner, through enhancing the auditor’s responsibility with respect to the other information; and
- Narrow the expectations gap through requiring auditors to articulate in their reports their responsibilities under the proposed ISA, and the outcome of their work relative to the other information.

Guide for Respondents

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

³ Issued July 2008, and available on the IAASB website at: web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011

⁴ ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

⁵ The Clarity Project involved the application of new drafting conventions to all ISAs, either as part of a substantive revision or through a limited redrafting, to reflect the new conventions and matters of clarity generally, thereby helping to improve the clarity and consistent application of the standards.

Significant Matters and Requests for Specific Comments

Scope of the Proposed ISA

In considering the scope of the proposed ISA, the IAASB determined that, as a baseline, the scope will continue to encompass other information in documents containing audited financial statements and the auditor's report thereon. Typically, these documents will be annual reports. The IAASB then recognized that other information that may affect the credibility of the audited financial statements and the auditor's report thereon may also be contained in an *accompanying* document, separate from the audited financial statements and the auditor's report thereon. In some jurisdictions, entities may distribute along with the audited financial statements additional documents (such as the Chairman's Statement, management reports or statements on corporate governance, internal control and risk assessment), whether required by law or regulation, to explain, among other things, the audited financial statements or the financial reporting process. Accordingly, the IAASB determined that the scope of the proposed ISA should also encompass such documents.

The IAASB, however, recognized that it would be necessary to put parameters around this expansion of scope because an entity may release a wide range of documents at or around the same time as the initial release of the audited financial statements. Without a more precise articulation of the scope, the IAASB felt that it would be difficult for auditors to determine which documents accompanying audited financial statements should be in or out of scope.

The IAASB therefore decided that an accompanying document would be in scope if it has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process (see paragraph 9(c)),⁶ as such a document would be directly related to the purpose of the financial statement audit.

The IAASB had considered the option of scoping in an accompanying document on the basis of whether it has a primary purpose of providing commentary to enhance the users' understanding of the entity and its environment, *and* the document's subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit. However, the IAASB overwhelmingly rejected that option because it would likely result in the inclusion of a larger number of documents in scope of the proposed ISA, which the auditor would then be required to read and consider, even if the information in such documents is less relevant to the purpose of the financial statement audit. The IAASB is of the view that such an approach is far more subjective and it would be too difficult to determine which information would have an objective of enhancing users' understanding of the entity and its environment. The IAASB therefore felt that such an approach could not be consistently applied and would not be cost effective, and consequently not in the public interest.

The IAASB has provided in paragraphs A12–A13 examples of accompanying documents that would be within or outside the scope of the proposed ISA.

Initial Release

The IAASB also felt it was important to build into the scope of the proposed ISA a criterion relating to the timing of release of the audited financial statements. The IAASB believes that documents

⁶ Paragraph numbers refer to the exposure draft unless otherwise stated.

that should be in scope should be those that are issued by the entity in connection with the *first time* the audited financial statements and the auditor's report thereon *for a reporting period* are made generally available to the group of users for whom the auditor's report is prepared (which will often be the shareholders). The IAASB has used the term "initial release" to refer to this timing concept, and has defined this term in the exposure draft along the lines described above (see paragraph 9(b)). The IAASB believes that this criterion is essential in order to avoid placing an open-ended obligation on auditors to read and consider documents, such as sale and purchase contracts, tenders, etc., that may contain or accompany audited financial statements long after those financial statements have been first issued to users.

The IAASB also acknowledges that, in some jurisdictions, the audited financial statements may first be issued to users by being, for example, filed with a regulatory authority, a securities exchange or an official public repository, or published in accordance with law or regulation, prior to the time of the annual shareholders' general meeting. In these circumstances, given that other information that would typically accompany audited financial statements may be distributed later for the annual shareholders' meeting, the IAASB did not believe that it would be appropriate to scope out such other information. Accordingly, the IAASB has provided guidance in the exposure draft to explain under what types of circumstances the initial release may occur (see paragraph A4).

The IAASB also felt it important to explain that the initial release criterion does not imply that documents would need to be issued by the entity on the particular *date* on which the audited financial statements are first made generally available to the users in order to be in scope. Rather, documents that are issued after the initial release are deemed to be issued *in connection with* the initial release if the other information contained in them addresses the same reporting period as the audited financial statements, and:

- (a) The documents are released pursuant to law or regulation, or established custom or practice; or
- (b) The documents were otherwise identified in discussion with management as being expected to be within the scope of this ISA (see paragraph 10(a)).

The IAASB has provided guidance to explain this practical application of the concept of initial release in paragraph A5.

In its deliberations, the IAASB considered whether the timing criterion should be linked to the concept of "date the financial statements are issued," which ISA 560⁷ defines as the date that the auditor's report and audited financial statements are made available to third parties, instead of to the concept of "initial release." The IAASB did not believe that it would be appropriate to do so because the audited financial statements may be issued to users through one or more means, as explained in paragraph A4, and these releases may not all be on the same date. For example, the audited financial statements and the auditor's report thereon for a private company may be first issued to the entity's bank, in accordance with a contractual provision, and may not include all the information (such as a Chairman's Statement) that is subsequently released to the entity's shareholders for purposes of the annual meeting. In this case, the initial release occurs on the date of the release to the shareholders and not on the date the financial statements are issued to the entity's bank.

⁷ ISA 560, *Subsequent Events*

Securities Offering Documents

The IAASB notes that securities offering documents are generally subject to specific requirements under law or regulation, including reporting requirements. Often, auditors' responsibilities with respect to such documents will already be addressed through either laws and regulations or standards established at the national level. Accordingly, the IAASB does not believe that the proposed ISA should address auditors' responsibilities regarding such documents except in the limited circumstances in which they meet the criteria for being within the scope of the proposed ISA. For example, in certain circumstances, an entity may first issue its audited financial statements for a reporting period in a public prospectus, such as for an initial public offering. The prospectus would in these circumstances be within scope of the proposed ISA because it would be the first time the financial statements are made available to the users.

As a matter of principle, the proposed ISA therefore scopes out securities offering documents unless they meet the limited criteria noted above (see paragraphs 3(b) and A1).

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?
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?
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?
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?

Objectives

Under the current ISA, the auditor has an obligation to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report. In developing the proposed ISA, the IAASB has sought to introduce an obligation for the auditor to read and consider the other information *in light of the auditor's understanding of the entity and its environment acquired during the audit* (see paragraph 11). The IAASB's aim is to promote a change in auditors' behavior with respect to their responsibilities for the other information in a way that will strengthen their ability to identify that there may be a material inconsistency in the other information and, if so, respond appropriately. Doing so, will provide greater value in the context of the audit overall.

Accordingly, the proposed ISA introduces revised objectives for the auditor, having read and considered the other information, to:

- (a) Respond appropriately when, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, the auditor identifies that:
 - (i) There may be a material inconsistency in the other information; or
 - (ii) The audited financial statements may be materially misstated; and
- (b) Report in accordance with the proposed ISA (see paragraph 8).

Request for Specific Comments

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?

Definition of an Inconsistency in the Other Information

The current ISA defines an inconsistency by reference to the audited financial statements, that is, in terms of other information that contradicts information contained in the audited financial statements. With the proposed ISA's enhanced obligation on the auditor to read and consider the other information *in light of the auditor's understanding of the entity and its environment acquired during the audit*, the meaning of an inconsistency has moved from a difference between the other information and the audited financial statements to an inaccuracy in the other information due to a difference identified by the auditor between the other information and the auditor's understanding of the entity and its environment acquired during the audit (having checked of course that the auditor's understanding was correct). Such understanding will include the auditor's understanding of the audited financial statements.

Given this meaning, the IAASB has established a definition of an inconsistency in the other information that specifies that such an inconsistency would exist when the other information:

- (a) Contains information that is incorrect, unreasonable or inappropriate; or
- (b) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information (see paragraph 9(a)).

The IAASB has further explained in the proposed ISA when it would consider an inconsistency in the other information to be *material*, that is, if the inconsistency could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared *taken on the basis of the audited financial statements and the other information as a whole* (see paragraph

9(a)). The IAASB believes that it is necessary to consider the audited financial statements and the other information as a whole in this regard because both of them together provide the necessary context for users' decisions.

Given this definition of an inconsistency and what constitutes a material inconsistency, the IAASB believes it is appropriate to make the point in the proposed ISA that other information that the auditor concludes, in accordance with relevant ethical requirements, is materially false or misleading is by its nature materially inconsistent (see paragraph A2).

There was a dissenting view at the IAASB regarding the proposed description of a "material inconsistency" in paragraph 9(a). This view held that the auditor's responsibilities with regard to other information should be founded on the basis of the auditor's ethical obligations,⁸ taking into account that other information is outside the scope of the financial statement audit and that it would be important to be clear as to what falls within the boundary of the audit.

Request for Specific Comments

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?
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?

Nature and Extent of Work Effort

The IAASB considered the following two alternative approaches to specifying the nature and extent of the auditor's work effort with respect to the other information:

- (a) A prescriptive approach, with detailed requirements with respect to the nature and extent of work effort relative to different types of other information; or
- (b) A principles-based approach, with an overarching requirement with respect to the work effort supported by detailed application material explaining how auditors may operationalize the requirement in practice.

The IAASB did not believe that a prescriptive approach with detailed requirements would be appropriate due to the varying nature of other information and the need for professional judgment. Importantly, such an approach would place undue emphasis on the lowest value tasks (such as "ticking and tying" amounts that can be found in the financial statements), thereby inappropriately suggesting that these are the areas where the greatest effort would be expected. This approach would detract from focusing on the more subjective areas in the other information where greater judgment would be necessary. In addition, given the range and diversity of other information, requirements cannot be developed for every situation.

⁸ Under paragraph 110.2 of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants*, a professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information contains a materially false or misleading information, contains statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

The IAASB has instead adopted a principles-based approach in the proposed ISA by way of a single requirement that is supported by detailed guidance to inform the auditor's judgment regarding the nature and extent of the work effort (see paragraph 11). The IAASB believes this will drive auditors to make judgments about, and tailor their work effort in response to, the different situations. This approach also has the advantage of providing the opportunity for a richer explanation in the application material of the proposed ISA regarding how the auditor may address the varying circumstances that may arise in practice when reading and considering the other information.

In terms of articulating the nature and extent of the auditor's work effort when reading and considering the other information, it should be noted that, for any document determined to be in scope of the proposed ISA, all information within that document would be subject to the auditor's responsibilities under the proposed ISA (even if the document contains certain information that does not meet this primary purpose of enhancing users' understanding of the audited financial statements or the financial reporting process). The IAASB believes, however, that it will be necessary for the auditor to exercise professional judgment in *focusing* the auditor's consideration of the other information, as not all the information may merit equal or additional consideration beyond reading the information. The proposed ISA sets out various factors that can assist the auditor in making an informed judgment in this regard (see paragraph A36).

The IAASB has also proposed guidance to assist the auditor in determining the nature and extent of the auditor's work in considering the other information, depending on the *nature* of the information, i.e., whether it is:

- Quantitative financial information intended to be the same as information in the audited financial statements;
- Qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements;
- Directly reconcilable financial information (see further explanation below); or
- All other information, whether financial or non-financial (see paragraph A37(d)).

The IAASB believes that, in practice, the auditor's work with respect to the first three categories of other information is likely to be relatively straightforward.

Directly Reconcilable Financial Information

The IAASB has separately identified a category of "directly reconcilable" financial information and explained in the proposed ISA that this is quantitative financial information and is supportable by a management reconciliation, items within which can be agreed to specific elements, accounts or items *in the financial statements* (see paragraph A37(c)). In its deliberations, the IAASB considered whether to directly reconcilable financial information should be described as including amounts that can be reconciled by tracing items in management's reconciliation to the entity's accounting records. The IAASB decided to limit such financial information to financial information that can be reconciled to the audited financial statements, as going beyond the financial statements may inappropriately suggest that the auditor is required to gather new audit evidence about the other information.

The IAASB believes that if such a line were not drawn, everything would be reconcilable to some extent and the work effort would become overly burdensome. Given that the objective under the proposed ISA is not to provide assurance on the other information, there would be a risk that users may take a level of assurance from the auditor's work on this information that would not be warranted.

All Other Information

The IAASB believes that the greatest need for judgment will likely arise with respect to the last category of information, as this category will likely contain information of a more qualitative or subjective nature, or information that cannot be traced directly back to the audited financial statements.

For this category of other information, the IAASB acknowledges that the auditor would not be expected to have an understanding of all of this information. However, when considering this information, the auditor may focus on those items about which the auditor expects to have relevant understanding obtained during the audit. The IAASB proposes guidance in this regard (see paragraph A41). The IAASB has also included guidance on relevant factors to assist the auditor in considering the nature of the work the auditor may perform on this information, including whether the information is objective or subjective, and whether the auditor has an expectation that relevant aspects of the auditor's understanding related to the other information may be recorded in the audit documentation or possessed by a component auditor (see paragraph A42). Finally, the IAASB has provided illustrative examples of the type of work the auditor may undertake with respect to information in that category depending on the nature of the information (see paragraph A43).

The IAASB has also provided examples of the types of qualitative and quantitative information in the Appendix of the proposed standard that the auditor may encounter when reading and considering other information.

Request for Specific Comments

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?
9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

Responding When the Auditor Identifies That the Audited Financial Statements May Be Materially Misstated

In circumstances where the auditor identifies information that indicates that the audited financial statements may be materially misstated, the proposed ISA enhances the requirement for the auditor to perform procedures necessary under the ISAs to determine whether the audited financial statements are materially misstated.

The IAASB recognizes that, in these circumstances, it is possible that the auditor may discover, through reading and considering the other information and discussions with management, new information that was not previously part of the auditor's understanding of the entity and its environment acquired during the audit. In particular, the new information may reveal that the auditor's prior understanding was incorrect or incomplete.

The actions the auditor may take in these circumstances will depend upon whether the other information was obtained prior to, or after, the date of the auditor's report. In the former case, the new information may have implications for the auditor's risk assessment, which may require revision in accordance with ISA 315,⁹ with consequential implications for the auditor's planned procedures. In the latter case, the new information may reveal a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report. In that case, the auditor would need to address this situation in accordance with the auditor's responsibilities under ISA 560. The proposed ISA provides guidance in this regard (see paragraphs A49 in relation to the former and A55 in relation to the latter).

Request for Specific Comments

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?

Reporting

Feedback received from respondents to the IAASB's May 2011 Auditor Reporting Consultation Paper¹⁰ indicated a need for greater transparency about the work the auditor undertakes regarding the other information. In June 2012, the IAASB issued its [Invitation to Comment](#) (ITC) on auditor reporting, setting out suggested improvements for the future auditor's report, including a statement in relation to other information. Anticipating on the likely evolution of the proposed ISA 720, the IAASB has indicated that the suggested wording for the reporting on other information in the ITC would be subject to changes due to the proposed revision of ISA 720.

Consistent with the IAASB's suggested improvement in the ITC regarding other information, the proposed ISA includes new reporting responsibilities with respect to other information. However, the IAASB has evolved the reporting approach in the proposed ISA from that originally set out in the ITC based on the expanded scope and objective of the proposed ISA 720. In particular, the

⁹ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁰ The IAASB's Consultation Paper, [Enhancing the Value of Auditor Reporting: Exploring Options for Change](#), specifically asked for respondents' views as to whether there would be benefit in including a statement about the auditor's responsibilities regarding other information in the auditor's report. An overwhelming majority of respondents expressed support for doing so, either because this would increase transparency about the auditor's work in this area, or because it is already local practice. Many respondents also expressed support for some form of auditor conclusion with respect to the other information for greater clarity.

illustrative wording in paragraph A57 is intended to replace what was presented in the illustrative report in the ITC.

Specifically, in addition to requiring a description of the auditor's responsibilities with respect to the other information in the auditor's report, the proposed ISA requires identification of the *specific documents* the auditor has read and considered, and whether, based on reading and considering the other information, the auditor has identified material inconsistencies in the other information. Further, to make it clear that the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it, the proposed ISA requires inclusion of a statement to that effect in the auditor's report (see paragraph 16).

To facilitate application of this reporting requirement, the proposed ISA provides illustrations of the statements the auditor may provide for situations when the auditor has not identified material inconsistencies, and when the auditor has identified a material inconsistency (see paragraphs A57–A58).

The proposed ISA also provides guidance on the auditor's consideration of the impact of modifications to the auditor's opinion on the financial statements on the statement the auditor is required to provide with respect to the other information (see paragraphs 17 and A60–A63).

Finally, the IAASB recognizes that law or regulation in a number of jurisdictions may already require reporting with respect to other information. The IAASB agreed that when the differences between the legal or regulatory requirements to report with respect to the other information and the proposed ISA relate only to the layout and wording in the auditor's report and certain minimum elements are included in the auditor's report (see paragraph 18), the auditor will be considered to have complied with the requirements of the proposed ISA. The IAASB has proposed guidance in this regard (see paragraph A64).

Other Information Not Available at the Date of the Auditor's Report

The IAASB believes that it is important to make it clear that, even if other information was not available at the date of the auditor's report, this does not mean that the auditor has no responsibility to read and consider the information if it subsequently becomes available. This responsibility will still apply as long as the other information is included in a document that is within the scope of this ISA. However, because the other information was not available at the time the auditor's report was dated, the auditor will not be able to identify it in the auditor's report. In addition, unless required by law or regulation, the auditor's report will not be updated or re-issued to refer to such other information (see paragraph A59). Therefore, depending on the timing of receipt of the other information, the auditors' reports on the audited financial statements of two similar entities may be different.

The IAASB also has made clear in the proposed ISA that when the other information is obtained after the date of the auditor's report, the auditor has no obligation to update the subsequent events procedures the auditor is required to perform under ISA 560 between the date of the financial statements and the date of the auditor's report (see paragraph A27).

Request for Specific Comments

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?
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?

Request for General Comments

In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- (a) *Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)*—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).
- (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISA, in particular, on any foreseeable difficulties in applying it in a developing nation environment.
- (c) *Translations*—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.
- (d) *Effective Date*—Recognizing that the proposed ISA is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 720 (REVISED)
THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN
DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS
AND THE AUDITOR’S REPORT THEREON

(Effective for audits of financial statements for periods ending on or after [Date])

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Proposed 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*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information that is included in documents within the scope of this ISA as defined in paragraph 9(c).
2. Other information that is materially inconsistent with the audited financial statements or the auditor's understanding of the entity and its environment acquired during the course of the audit may:
 - (a) Undermine the credibility of the audited financial statements and the auditor's report thereon;
 - (b) Inappropriately influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole; or
 - (c) Indicate that the audited financial statements are materially misstated.
3. This ISA does not apply to:
 - (a) Preliminary announcements of financial information; and
 - (b) Securities offering documents, including prospectuses, unless such documents meet the criteria specified in paragraph 9(c) for documents within the scope of this ISA. (Ref: Para. A1)
4. Some documents within the scope of this ISA may include other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. Although the auditor is not required to seek to enhance the auditor's understanding of the entity and its environment beyond that required for purposes of the audit, such other information is nevertheless within the scope of this ISA.
5. This ISA does not impose an obligation on the auditor to express an audit opinion or a review conclusion on the other information.
6. Law or regulation may impose obligations with respect to other information that are beyond the requirements (and are therefore outside the scope) of this ISA.

Effective Date

7. This ISA is effective for audits of financial statements for periods ending on or after [date].

Objectives

8. The objectives of the auditor, having read and considered the other information, are to:
 - (a) Respond appropriately when, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, the auditor identifies that:
 - (i) There may be a material inconsistency in the other information; or
 - (ii) The audited financial statements may be materially misstated; and
 - (b) Report in accordance with this ISA.

Definitions

9. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) Inconsistency in the other information – An inconsistency in the other information exists when the other information: (Ref: Para. A2–A3)
 - (i) Contains information that is incorrect, unreasonable or inappropriate; or
 - (ii) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.

An inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole.

- (b) Initial release – Initial release occurs when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared, often the shareholders. (Ref: Para. A4–A6)
- (c) Other information – Financial and non-financial information (other than audited financial statements and the auditor's report thereon) included in a document that is issued by the entity in connection with the initial release, and that: (Ref: Para. A7–A9, A14–A21)
 - (i) Contains the audited financial statements and the auditor's report thereon; or (Ref: Para. A10)
 - (ii) Accompanies the audited financial statements and the auditor's report thereon and has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process. (Ref: Para. A11–A13)

Requirements

Obtaining the Other Information

10. The auditor shall:
- (a) Discuss with management the nature and timing of the documents that are expected to be issued in connection with the initial release and determine which of them are within the scope of this ISA; and
 - (b) Make appropriate arrangements with management to obtain in a timely manner, and if possible prior to the date of the auditor's report, the final version of the documents that are within the scope of this ISA. (Ref: Para. A22–A27)

Reading and Considering the Other Information

11. The auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. (Ref: Para. A28–A43)

Responding When the Auditor Identifies That There May Be a Material Inconsistency in the Other Information

12. If, based on reading and considering the other information, the auditor identifies that there may be a material inconsistency in the other information, the auditor shall discuss the matter

- with management and, if necessary, perform other procedures to determine whether a material inconsistency in the other information does exist. (Ref: Para. A44–A48)
13. If the auditor determines that a material inconsistency in the other information does exist, the auditor shall request management to correct the other information. If management:
- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
14. If the other information is not corrected after communicating with those charged with governance, the auditor shall:
- (a) When the other information was obtained prior to the date of the auditor's report, take appropriate action, including: (Ref: Para. A49–A51)
 - (i) Considering the reporting implications (see paragraph 16(c)); or (Ref: Para. A52)
 - (ii) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation; or (Ref: Para. A53–A54)
 - (b) When the other information was obtained after the date of the auditor's report, take appropriate action in accordance with ISA 560,¹ taking into account the auditor's legal rights and obligations. (Ref: Para. A55–A56)

Responding When the Auditor Identifies That the Audited Financial Statements May Be Materially Misstated

15. If, based on reading and considering the other information, the auditor identifies information that indicates that the audited financial statements may be materially misstated, the auditor shall perform procedures necessary under the ISAs to determine whether the audited financial statements are materially misstated. (Ref: Para. A49, A55)

Reporting

16. Where the auditor has obtained the other information prior to the date of the auditor's report, the auditor shall include a statement in the auditor's report comprising the following elements: (Ref: Para. A57–A58)
- (a) A description of the auditor's responsibilities with respect to the other information;
 - (b) Identification of the specific documents that contain the other information that the auditor has read and considered as part of the audit of the financial statements; (Ref: Para. A59)
 - (c) A statement addressing whether, based on reading and considering the other information obtained, the auditor has identified material inconsistencies in the other information, and, if so, a statement describing them; and
 - (d) A statement that the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it.

¹ ISA 560, *Subsequent Events*, paragraphs 10–17

17. When the auditor's opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statement required in paragraph 16(c). (Ref: Para. A60–A63)

Reporting Prescribed by Law or Regulation

18. If the auditor is required by law or regulation of a specific jurisdiction to report with respect to the other information and to use a specific layout or wording in the auditor's report for this purpose, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum: (Ref: Para. A64)
- (a) A description of the auditor's responsibilities with respect to the other information;
 - (b) Identification of the documents containing the other information that the auditor has read and considered; and
 - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

19. When the auditor has identified a material inconsistency in the other information, the auditor shall include in the audit documentation how the auditor has addressed the inconsistency.
20. The auditor shall retain in the audit documentation the document(s) on which the auditor has performed the work required under this ISA. (Ref: Para. A65)

Application and Other Explanatory Material

Scope of this ISA

Securities Offering Documents (Ref: Para. 3(b))

- A1. Securities offering documents, including prospectuses, are often subject to specific requirements contained in, for example, listing rules and securities statutes. These requirements may often include reporting requirements beyond those for an audit of financial statements. A securities offering document is not precluded from being in the scope of this ISA if:
- The document is issued by the entity in connection with the initial release; and
 - It meets all the other criteria specified in paragraph 9(c) for documents that are within the scope of this ISA.

For example, if the entity issued its audited financial statements for the first time in a public prospectus, the prospectus is within the scope of this ISA.

Definitions

Inconsistency in the Other Information (Ref: Para. 9(a))

- A2. Inconsistencies in the other information identified by the auditor may range from those that the auditor considers are clearly trivial to those that the auditor considers are material. Other information that the auditor concludes, in accordance with relevant ethical requirements, is materially false or misleading is by its nature materially inconsistent.

Considerations Specific to Public Sector Entities

A3. In the public sector, the intended users may make non-economic decisions based on the other information, such as changes in public policy and direction. An inconsistency in the other information may therefore be material in the public sector if it could reasonably be expected to influence such non-economic decisions taken on the basis of the audited financial statements and the other information as a whole.

Initial Release (Ref: Para. 9(b))

A4. The entity's initial release may occur through, for example:

- Filing the documents with a regulatory authority, a securities exchange, or an official public repository.
- Distributing the documents directly to shareholders for the annual shareholder's meeting.
- Publishing the documents in accordance with law or regulation.

For example, in the case of a private entity, the audited financial statements and the auditor's report thereon are first issued to the entity's bank,² in accordance with a contractual provision. The audited financial statements and the auditor's report thereon are later released to the shareholders with the annual report. In this case:

- The initial release occurs on the date of the release to the shareholders; and
- The annual report is within the scope of this ISA.

A5. Documents issued by the entity in connection with the initial release may not all be released to the users for whom the auditor's report is prepared on the same date as the initial release. Documents that are issued after the initial release are only treated as issued in connection with the initial release if the other information contained in them addresses the same reporting period as the audited financial statements, and:

- (a) The documents are released pursuant to law or regulation, or established custom or practice; or
- (b) The documents were otherwise identified in the discussion with management required by paragraph 10(a) as being expected to be within the scope of this ISA.

For example, an entity may file some of the documents and the audited financial statements with a regulatory authority, a securities exchange or an official public repository, and subsequently distribute those documents along with additional documents (such as a Chairman's statement) to shareholders for the purposes of the annual meeting for the same reporting period. Such additional documents are within the scope of this ISA.

As another example, a press release issued in connection with the initial release is within the scope of this ISA, whereas a press release issued in connection with a preliminary announcement is not within the scope of this ISA.

A6. There may be other circumstances where the audited financial statements and the auditor's report thereon are subsequently distributed within, or together with, documents that are not issued by the entity in connection with the initial release, for example, loan agreements and tender documents. Such documents are outside the scope of this ISA.

² This is the date that the auditor's report and audited financial statements are made available to third parties (see ISA 560, paragraph 5).

Other Information (Ref: Para. 9(c))

- A7. A document within the scope of this ISA may either stand alone, or be part of a set of documents. This document may be issued, or other information may be included in it, pursuant to law or regulation, or custom, or voluntarily.
- A8. Documents within the scope of this ISA may be made available in printed form, or electronically, including on the entity's website. A document that meets the criteria in paragraph 9(c) is within the scope of this ISA irrespective of the manner in which it is made available. For example, where a document is only made available on the entity's website, the auditor's procedures under this ISA would be performed on a version of the document obtained from the entity in accordance with paragraph 10(b) of this ISA.
- A9. Documents within the scope of this ISA may be translated into other languages. The auditor's responsibilities under this ISA do not extend to such translated documents. However, the auditor may be required by law, regulation or terms of contract to perform work on the translated documents.

Documents Containing Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 9(c)(i))

- A10. A document containing audited financial statements and the auditor's report thereon, that is issued by the entity in connection with their initial release, is typically referred to as an annual report, although such a document may also be known by a different term.

Documents Accompanying Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 9(c)(ii))

- A11. The purposes of a document accompanying the audited financial statements and the auditor's report thereon, that is issued by the entity in connection with the initial release, define whether or not the document is within the scope of this ISA. Such an accompanying document is within the scope of this ISA if it has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process. Financial reporting process³ refers to the process that is used to prepare an entity's financial statements. It includes matters ranging from internal control to aspects of the entity's governance practices. ISA 315 provides further guidance on an entity's financial reporting process.⁴
- A12. Examples of such accompanying documents that are within the scope of this ISA include the following:
- Management report, or operating and financial review or similar reports by those charged with governance (for example, directors' report).
 - Chairman's statement.
 - Corporate governance statement.
 - Internal control and risk assessment reports.
- A13. Accompanying documents that do not have a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting

³ As used in the context of the ISAs

⁴ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs A81–A83

process are outside the scope of this ISA. Examples include separate documents issued by the entity, such as:

- Corporate social responsibility report.
- Sustainability report.
- Diversity and equal opportunity report.
- Product responsibility report.
- Labor practices and working conditions report.
- Human rights report.

However, if any information of this nature is contained in a document that is within the scope of this ISA, it would be subject to the requirements of this ISA, including for the auditor to read and consider it.

Integrated Reports

A14. Documents that are referred to as integrated reports may or may not be within the scope of this ISA depending on their purpose and the circumstances of their issuance. For example, an integrated report containing audited financial statements and the auditor's report thereon, that is issued in connection with the initial release, is within the scope of this ISA.

Types of Other Information

A15. Other information may be financial or non-financial in nature and may be historical or prospective. Examples of other information include the following:

Financial

- Financial summaries or highlights.
- Planned expenditures.
- Segment information.⁵
- Financial ratios.
- Selected quarterly financial data.
- Financial "key performance indicators."

Non-Financial

- Operating data such as production in units, quantities of raw materials used, or energy consumption by quarter.
- Names and profiles of officers and directors.
- Employment data.
- Governance statements.

⁵ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*, deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to segment information in an audit of financial statements when, under the applicable financial reporting framework, the entity is required or permitted to disclose such information in the audited financial statements.

- Sustainability and corporate social responsibility information (such as environmental, labor practices and working conditions, and product responsibility information).
- Statements of internal control.
- Non-financial “key performance indicators” (or, in the public sector, details about the entity’s outputs and outcomes – see paragraph A21).

A16. Management commentary may also be included in the other information and typically comprises both financial and non-financial information. The International Financial Reporting Standard (IFRS) Practice Statement on Management Commentary⁶ explains that management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity’s financial position, financial performance and cash flows. Management commentary also includes commentary on an entity’s prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management’s objectives and its strategies for achieving those objectives.

A17. Financial information in the other information may be quantitative or qualitative in nature, and may be the same as specific elements, accounts or items in the financial statements. Alternatively, it may be intended to provide:

- Further analysis or explanation of aspects of the entity’s financial position, financial performance, or cash flows through, for example, ratio analysis; or
- Context when describing management’s assessment of the entity’s future financial prospects.

Examples of quantitative and qualitative financial information are included in the Appendix to this ISA.

A18. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the audited financial statements.⁷ As such disclosures are required by the applicable financial reporting framework, they form part of the audited financial statements. Accordingly, they do not constitute other information for the purpose of this ISA.

A19. Unaudited supplementary information that is presented with, and clearly differentiated from, the audited financial statements is dealt with in ISA 700.⁸ As explained in ISA 700,⁹ such information falls within the definition of other information and is therefore within the scope of this ISA.

A20. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this ISA.

⁶ IFRS Practice Statement, *Management Commentary*, as at December 2010

⁷ For example, IFRS 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the IFRSs to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 46–47 and A45–A51

⁹ ISA 700, paragraph A51

Considerations specific to public sector entities

A21. In the public sector, examples of other information include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program review and other reports by management about the entity's achievements over the reporting period, such as:

- Number of supervisions performed.
- Number of complaints handled.
- Number of students who have graduated.

Obtaining the Other Information (Ref: Para. 10)

A22. The auditor may communicate with management:

- The auditor's expectations in relation to obtaining the other information in a timely manner prior to the date of the auditor's report, or if it is not possible, as soon as practicable and in any case prior to issuance of such information; and
- The possible implications when it is obtained after the date of the auditor's report, including actions the auditor may need to take in accordance with ISA 560.¹⁰

A23. Such communications may be appropriate for example:

- In an initial audit engagement.
- When there has been a change in management.
- When the other information will be included in a document containing or accompanying the audited financial statements and the auditor's report thereon for the first time.

A24. Where those charged with governance are to approve the document, the final version is the one that has been approved by those charged with governance for issuance.

A25. This ISA applies regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to be made to the audited financial statements, the auditor's report, or the other information prior to their issuance. The audit engagement letter may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor's report, to allow the auditor to complete the procedures required under this ISA.¹¹

A26. The auditor is not precluded from dating the auditor's report if the auditor has not obtained the other information.

A27. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6–7 of ISA 560. However, the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report are addressed in paragraphs 10–17 of ISA 560 (see paragraph A55).

¹⁰ ISA 560, paragraphs 10–17

¹¹ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph A23

Reading and Considering the Other Information (Ref: Para. 11)

- A28. The auditor's understanding of the entity and its environment acquired during the course of the audit forms the basis for the auditor's consideration of the other information as required in this ISA. ISA 315¹² sets out matters relating to the entity and its environment, including the entity's internal control, for which the auditor is required to obtain an understanding for the purpose of the audit. Such matters include the following:
- (a) The relevant industry, regulatory, and other external factors;
 - (b) The nature of the entity;
 - (c) The entity's selection and application of accounting policies;
 - (d) The entity's objectives and strategies;
 - (e) The measurement and review of the entity's financial performance; and
 - (f) The entity's internal control.
- A29. The auditor's understanding of the entity and its environment acquired during the course of the audit also encompasses understanding of matters that may be prospective in nature. These matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.
- A30. The auditor is required by ISA 200¹³ to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of their plans or may be overly focused on seeking to convince readers of the merits of their point of view rather than providing a balanced analysis. Therefore, circumstances may exist that raise doubt about the audited financial statements or the other information, and possibly about management's competence or ethical values, or about their commitment to such values.
- A31. 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 involves 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.
- A32. A document that is within the scope of this ISA may include other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. In meeting the requirements of this ISA, the auditor is not required to seek to enhance the auditor's understanding of the entity and its environment beyond that required for purposes of the audit.
- A33. In accordance with ISA 220,¹⁴ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with

¹² ISA 315, paragraphs 11–12

¹³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15

¹⁴ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

professional standards and applicable legal and regulatory requirements. In the context of this ISA, factors the engagement partner may take into account when determining the appropriate individuals to read and consider the other information, include:

- The relative experience of engagement team members.
- Whether the individuals to be assigned the tasks have the relevant understanding to consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit.
- The degree of judgment involved in reading and considering the other information. For example, when consideration of the other information involves a lower degree of judgment, such as agreeing quantitative information to corresponding information in the audited financial statements, such a task may be carried out by less experienced members of the engagement team.

A34. In the case of a group audit, the group engagement partner may determine it necessary to engage the assistance of a component auditor in considering the other information related to that component.

A35. Reading and considering the other information may lead the auditor to identify information that indicates that:

- (a) A material inconsistency in the other information may exist; or
- (b) The audited financial statements may be materially misstated.

A36. The auditor exercises professional judgment in focusing the auditor's consideration of the other information. Factors that assist the auditor include:

- Whether the auditor believes there may be a material inconsistency in the other information.
- The significance¹⁵ of the other information in the context in which it is presented, for example:
 - The importance that users would attach to the other information for their economic decisions, having regard to the nature of the entity and its business, and the extent to which the information supports explanations of key aspects of the entity's financial position, financial performance and cash flows.
 - If quantitative, the relative size of the amount compared with the elements, accounts or items in the audited financial statements or the other information to which they relate.
 - The sensitivity of the information, for example, stock option compensation for senior management.
- Whether the other information is closely related to:
 - The audited financial statements, for example, analyses of movements in specific provisions included in the financial statements, or more detailed breakdowns of items in the financial statements such as derivative financial instruments or guarantees; or

¹⁵ As defined in the Glossary of Terms

- The auditor's understanding of the entity and its environment acquired during the course of the audit – for example, the entity's business model and strategy and related business risks may be more closely related; by contrast, operating data not obtained from the entity's accounting system, such as the volume of recycled materials or customer satisfaction feedback, may be less closely related.
- Whether the other information contains information of which the auditor was not previously aware but that the auditor would have expected to have known about during the audit.

A37. The nature and extent of the auditor's work in considering the other information depends on the nature of the information. This work may include:

- (a) For quantitative financial information that is intended to be the same as information in the audited financial statements, agreeing the financial information to the financial statements.
- (b) For qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements, considering the significance of any differences in wording used and whether such differences imply different meanings.
- (c) For directly reconcilable financial information (see paragraphs A38–A40), obtaining a reconciliation from management and:
 - Agreeing items in the reconciliation to the audited financial statements; and
 - Determining whether the calculations within the reconciliation are arithmetically accurate.
- (d) For the remaining other information, whether financial or non-financial, considering such information relative to the auditor's understanding of the entity and its environment acquired during the course of the audit (see paragraphs A41–A43).

Directly Reconcilable Financial Information (See Paragraph A37(c))

A38. Directly reconcilable financial information is quantitative financial information and is supportable by a management reconciliation, all the items within which can be agreed to specific elements, accounts or items in the financial statements.

A39. Directly reconcilable financial information may include, for example:

- Non-GAAP measures such as EBITDA (earnings before interest, taxes, depreciation and amortization), and free cash flow.
- Financial ratios such as gross margin, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio.

A40. Financial information that is not directly reconcilable may include, for example, market data, such as trends in interest or foreign exchange rates, or commodity prices at specific points in time.

Remaining Other Information (See Paragraph A37(d))

A41. It is not expected that the auditor will have an understanding of all the other information. However, when considering the remaining other information, the auditor may focus on those items about which the auditor expects to have relevant understanding obtained during the course of the audit.

A42. The nature of the work that the auditor may perform in considering such other information will vary depending on:

- The nature of the other information, for example, whether it is:
 - Quantitative or qualitative.
 - Financial or non-financial.
 - Objective or subjective.
- Whether the auditor has an expectation that relevant aspects of the auditor's understanding related to the other information may be recorded in the audit documentation or possessed by a component auditor.

A43. The work the auditor may perform in considering the other information includes:

- In the case of other quantitative financial information, obtaining from management an analysis of the financial information and:
 - Considering significant items within the analysis in light of the auditor's understanding of the entity and its environment as reflected in the audit documentation.
 - Determining whether the calculations within the analysis are arithmetically accurate.

For example, when considering management's description of the currency effect on growth in revenue in an entity in the oil and gas industry, the auditor may obtain management's reconciliation of the currency effect to the underlying accounting records and compare significant items within the analysis to the audit documentation.

- Comparing the non-financial other information with the auditor's understanding of the entity and its environment as reflected in the audit documentation (for example, the audit documentation relating to impairment testing and going concern when considering management's description of future prospects).

As a further example, when considering management's subjective description of the potential implications of proposed changes to tax laws in a country where a significant component operates, the auditor may involve the component auditor in comparing such description with the component auditor's understanding.

Responding When the Auditor Identifies That There May Be a Material Inconsistency in the Other Information

Determining Whether a Material Inconsistency in the Other Information Does Exist (Ref: Para. 12)

A44. The auditor's discussion with management may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may judge that there is no material inconsistency in the other information. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

A45. Conversely, the discussion with management may provide further information that reinforces the auditor's belief that a material inconsistency in the other information may exist.

A46. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor determines that the other information contains a statement that is not consistent with the

auditor's understanding of the entity and its environment acquired during the course of the audit. These circumstances may raise doubt about the other information or the audited financial statements.

- A47. The nature and extent of other procedures the auditor may perform to determine whether a material inconsistency in the other information does exist are a matter of the auditor's professional judgment in the circumstances.
- A48. In certain circumstances, the auditor may not be able to assess management's responses to the auditor's inquiries and, accordingly, the validity of management's statements in the other information. In these circumstances, the auditor may consider other procedures such as requesting management to consult with a qualified third party such as a management expert or legal counsel.

Other Information Obtained Prior to the Date of the Auditor's Report (Ref: Para. 14(a))

Implications of New Information (Ref: Para. 15)

- A49. Reading and considering the other information and discussions with management may provide new information that has implications for the auditor's understanding of the entity and its environment and, accordingly, for the auditor's risk assessment.¹⁶

Responding When a Material Inconsistency in the Other Information Is Not Corrected

- A50. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance depend on a number of factors, including:
- The extent to which a material inconsistency in the other information could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole.
 - The auditor's understanding of the rationale given by management and those charged with governance for not making the correction. Such rationale may, for example, raise doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead.
- A51. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 14(a)(i))

- A52. In rare circumstances, a disclaimer of opinion may be appropriate when the refusal to correct the material inconsistency in the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

Withdrawal from the Engagement (Ref: Para. 14(a)(ii))

- A53. Withdrawal from the engagement may be appropriate when the circumstances surrounding the refusal to correct the material inconsistency in the other information cast such doubt on the integrity of management and those charged with governance as to call into question the

¹⁶ ISA 315, paragraph 31

reliability of representations obtained from them during the audit and therefore audit evidence obtained in support of the audit opinion on the financial statements.

Considerations specific to public sector entities

A54. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter.

Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 14(b), 15)

A55. Reading and considering the other information and discussions with management after the date of the auditor's report may reveal a fact that had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report. ISA 560 addresses the responsibility of the auditor in such circumstances.¹⁷

A56. The actions the auditor may take, with a view to bringing the material inconsistency in the other information to the attention of the users for whom the auditor's report is prepared or appropriate public authorities, depend upon the auditor's legal rights and obligations. For example, in some cases the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body, or through other public disclosures. The auditor may consider it appropriate to seek legal advice.

Reporting

Illustrative Statements (Ref: Para. 16)

Illustrative Statement When the Auditor Has Not Identified Material Inconsistencies in the Other Information

A57. The following is an example of the statement that would be included in the auditor's report when the auditor has not identified a material inconsistency in the other information:

As part of our audit, it is our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information¹⁸ in [specify the document(s) containing the other information, e.g., the entity's annual report for the year ended December 31, 20X1] ("Other Information") and to report whether we have identified material inconsistencies in the Other Information. We have not identified material inconsistencies in the Other Information. However, we have not audited or reviewed the Other Information and accordingly do not express an audit opinion or a review conclusion on it.

Illustrative Statement When the Auditor Has Identified Material Inconsistencies in the Other Information

A58. The following is an example of the statement that would be included in the auditor's report when the auditor has identified a material inconsistency in the other information and withdrawal from the engagement is not necessary or possible in the circumstances:

As part of our audit, it is our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the

¹⁷ ISA 560, paragraphs 10–17

¹⁸ The auditor may, if considered helpful, clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.

information¹⁹ in [specify the document(s) containing the other information, e.g., the entity's annual report for the year ended December 31, 20X1] ("Other Information") and to report whether we have identified material inconsistencies in the Other Information. As described below, we have identified a material inconsistency in the Other Information relating to[describe the material inconsistency.] However, we have not audited or reviewed the Other Information and accordingly do not express an audit opinion or a review conclusion on it.

Other Information Not Available at the Date of the Auditor's Report (Ref: Para. 16(b))

A59. The fact that other information was not available at the date of the auditor's report does not obviate the need for the auditor to read and consider it in light of the auditor's understanding of the entity and its environment acquired during the course of the audit if such other information subsequently becomes available and is included in a document that is within the scope of this ISA. However, the other information will not be identified in the auditor's report as it was not available at the time the auditor's report was dated, and, unless required by law or regulation, the auditor's report will not be updated or re-issued to refer to such other information.

Reporting Implications When the Auditor's Opinion on the Financial Statements Is Modified (Ref: Para. 17)

A60. A modification of the auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 16(c) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this ISA. In other circumstances, there may be implications for such reporting as described in paragraphs A61–A63.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

A61. While the other information may be consistent with the financial statements, the auditor may conclude that it is materially inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit because of the matter for which the auditor has qualified the auditor's opinion. In these circumstances, the auditor may need to report in a similar manner to that set out in paragraph A58.

Qualified Opinion Due to Limitation of Scope

A62. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether management's description of the matter in the other information is materially inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit. Accordingly, the auditor may need to modify the statement required by paragraph 16(c) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been

¹⁹ The auditor may, if considered helpful, clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.

qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to address whether the auditor has identified material inconsistencies in the other information.

Adverse Opinion or Disclaimer of Opinion

A63. An adverse opinion or a disclaimer of opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion or Basis for Disclaimer of Opinion paragraph does not justify the omission of reporting of material inconsistencies in the other information that the auditor has identified. In these circumstances, the auditor may need to appropriately modify the statement required by paragraph 16(c).

Reporting Prescribed by Law or Regulation (Ref: Para. 18)

A64. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs.²⁰ Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this ISA. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this ISA relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 18 is included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this ISA, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

Documentation (Ref: Para. 20)

A65. ISA 230²¹ requires the auditor to record the identifying characteristics of the specific items or matters tested. Retaining a copy of the document on which the auditor has performed work under this ISA serves as a record of the version upon which the auditor has performed work, particularly if the entity subsequently amends the document.

²⁰ ISA 200, paragraph A55

²¹ ISA 230, *Audit Documentation*, paragraph 9(a)

Appendix

(Ref: Para. A17)

Examples of Quantitative and Qualitative Financial Information

The following are examples of quantitative and qualitative financial information that may be included in other information. This list is not intended to be exhaustive.

Quantitative Financial Information

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data such as income from continuing operations by major operating area, or sales by geographical segment or product line
- Special items such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.
- Tables of interest or foreign exchange rates over the past period, or graphs showing trends in such data over a given period.
- Prices of specific commodities at given points in time, or graphs showing trends in such prices over a given period.

Qualitative Financial Information

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.

- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.
- A summary of significant operating developments by country in which the entity operates.

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO OTHER ISAs

A. Consequential Amendments

ISA 260, *Communication with Those Charged with Governance*

Matters to Be Communicated

Planned Scope and Timing of the Audit (Ref: Para. 15)

A13. Matters communicated may include:

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- The auditor’s approach to internal control relevant to the audit.
- The application of the concept of materiality in the context of an audit.³²
- The arrangements made with management to obtain in a timely manner documents within the scope of [proposed] ISA 720 (Revised),³³ including:
 - Details of the documents that the entity intends to issue, and that the auditor will read and consider under [proposed] ISA 720 (Revised); and
 - When the documents are expected to be made available to the auditor.

ISA 700, *Forming an Opinion and Reporting on Financial Statements*

Supplementary Information Presented with the Financial Statements (Ref: Para. 15)

A51. Unaudited supplementary information meets the definition of other information and is therefore within the scope of [proposed] ISA 720 (Revised).³⁴ Accordingly, ~~the fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read and consider it in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit, that information to identify respond appropriately when the auditor identifies that (a) there may be a material inconsistency with in the other information, or (b) the audited financial statements may be materially misstated. The auditor’s responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720.~~³⁵

³² ISA 320, *Materiality in Planning and Performing an Audit*

³³ [Proposed] 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*

³⁴ Paragraph 9 of [proposed] 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*, defines the term “other information” for purposes of the ISAs.

³⁵ ISA 720, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.”

B. Conforming Amendments

Glossary of Terms

~~*Inconsistency in the other information—An inconsistency in the other information exists when that contradicts the other information contained in the audited financial statements.:~~

- ~~(i) Contains information that is incorrect, unreasonable or inappropriate; or~~
- ~~(ii) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.~~

~~An material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis for of the auditor's opinion on the financial statements and the other information as a whole.~~

~~*Misstatement of fact—Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.~~

~~*Initial release—Initial release occurs when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared, often the shareholders.~~

~~*Other information—Financial and non-financial information (other than the audited financial statements and the auditor's report thereon) which is included, either by law, regulation, or custom, in a document containing audited financial statements and the auditor's report thereon that is issued by the entity in connection with the initial release, and that:~~

- ~~(i) Contains the audited financial statements and the auditor's report thereon; or~~
- ~~(ii) Accompanies the audited financial statements and the auditor's report thereon and has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process.~~

ISA 260, *Communication with Those Charged with Governance*

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(d))

A20. Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as ~~material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.~~

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

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 10–11)

A16. The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- ...
- Affects other information that will be communicated in documents containing or accompanying the audited financial statements and the auditor's report thereon (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements. [Proposed] ISA 720 (Revised) deals with the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing or accompanying audited financial statements and the auditor's report thereon that are within the scope of [proposed] ISA 720 (Revised).



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