Outline of Responses Received

1. The comment period for the Exposure Draft of proposed ISA 720 (Revised) (ED-720) closed on March 14, 2013. Seventy-four (74) comment letters were received. A detailed respondent list is included in Appendix 1, and all responses can be accessed from the IAASB’s website at www.ifac.org/publications-resources/international-standard-auditing-isa-720-revised-auditor-s-responsibilities-re.

2. Comment letters were received from the following stakeholder groups:

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors and Analysts</td>
<td>3</td>
<td>4%</td>
</tr>
<tr>
<td>Regulators and Audit Oversight Bodies</td>
<td>9</td>
<td>12%</td>
</tr>
<tr>
<td>Those Charged with Governance (TCWG)</td>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>National Auditing Standard Setters (NSS)</td>
<td>5</td>
<td>7%</td>
</tr>
<tr>
<td>Accounting Firms</td>
<td>12</td>
<td>16%</td>
</tr>
<tr>
<td>Public Sector Auditors</td>
<td>6</td>
<td>8%</td>
</tr>
<tr>
<td>Preparers</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Member Bodies and Other Professional Organizations</td>
<td>30</td>
<td>41%</td>
</tr>
<tr>
<td>Academics</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Individuals and Others</td>
<td>5</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

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1 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
3. The geographic coverage of responses is shown below:

<table>
<thead>
<tr>
<th>Geographic Region</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizations with a Global Mandate</td>
<td>15</td>
<td>20%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>17</td>
<td>23%</td>
</tr>
<tr>
<td>Europe</td>
<td>27</td>
<td>36%</td>
</tr>
<tr>
<td>Middle East/Africa</td>
<td>3</td>
<td>4%</td>
</tr>
<tr>
<td>North America</td>
<td>10</td>
<td>14%</td>
</tr>
<tr>
<td>South America</td>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Overall Comments Received**

4. Overall, respondents supported the IAASB’s intention of strengthening the auditor’s responsibilities with respect to Other Information. There was also general support for the IAASB doing so through exploring changes to broaden the scope of the documents covered by ISA 720, broaden the responsibilities of the auditor to consider inconsistencies with their knowledge based on the audit (not just inconsistencies with the financial statements), and increase the transparency of the auditor’s work on Other Information via the auditor’s report.

5. For example, a respondent noted that ED-720 was a “timely recognition of the shifts in corporate reporting towards, for example qualitative disclosures, and the calls, particularly from investors, for more informative reporting by auditors.” Another respondent highlighted that “users have greater interest in, and are placing more importance on, other information, which varies in terms of nature and extent; therefore, it is in the public interest to consider ISA 720 in context of the current environment.”

6. Investors, public sector organizations and individual respondents in particular were broadly supportive of the proposals as drafted in ED-720. However, some of these, and many respondents across the other stakeholder groups, raised concerns about the way that the IAASB had articulated the specific proposals in ED-720. These concerns ranged from the view that the proposals did not go far enough, to the view that they went too far.

7. Wherever in this range those concerns were, they led those respondents to believe that the specific proposals would be difficult to operationalize in practice. By way of example, a regulatory respondent noted that “further consideration is needed to provide for a more robust standard that is practical for auditors and enforceable by regulators”—a sentiment

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2 ACCA  
3 EYG  
4 See, for example, the range of comments by Eumedion, DTT, HEOS, HQ, KI, and KPMG referenced in paragraph 22.  
5 IOSCO
Other Information—Issues Paper
IAASB Main Agenda (June 2013)

shared to varying degrees by other regulatory respondents⁶ and by some from other respondents.⁷ Other respondents raised similar operational issues, but were more concerned that the articulation of the proposals would leave auditors with too broad a range of possible interpretations that could create unreasonably demanding expectations of them among users.

8. A few⁸ respondents disagreed with the IAASB’s intentions in revising ISA 720 and the specific proposals included in ED-720. Some of these respondents’ more specific comments included the view that:

• Extant ISA 720 was adequate;⁹
• User needs for assurance on Other Information would not be met by ED-720¹⁰.
• The proposals are a fundamental departure from the extant ISA 720 that go significantly beyond the extant objective of ensuring that Other Information that appears to be materially inconsistent with the financial statements did not undermine the credibility of the auditor’s report.¹¹

9. The Task Force notes that the range of views on ED-720 will make it difficult to find solutions that will satisfy all respondents.

Heat Map

10. ED-720 included questions for respondents to help draw out comments on key areas within ED-720. A “heat map” indicating the degree of support or otherwise for the IAASB’s proposals in these key areas is included in Appendix 2.

Structure of this Paper

11. The Task Force has not yet deliberated all issues raised by respondents, on ED-720. This paper presents only the following key areas as follows:

(a) Scope of documents covered by ED-720 (Section A below); and

(b) Expansion of the work effort beyond “reading” the Other Information (Section B below).

The final section of the paper (Section C) deals with the specific matter of treatment of securities offering documents, which the Task Force has discussed in the course of addressing the above areas.

12. Matters not discussed yet by the Task Force include:

• Revision, if necessary, of the Objectives stated in the ISA;

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⁶ See, for example, IAIS, CPAB.
⁷ See, for example, AICD, SAICA, EFAA and AAA.
⁸ BT, HQ, ICAA, ICPAS, IDW, MNP, PP.
⁹ ICPAS
¹⁰ See, for example, ICAA.
¹¹ IDW
• Whether electronic dissemination of documents have been appropriately addressed;
• Further aspects of the auditor’s work effort, including related application material; and
• The auditor’s reporting obligations.

Significant Issues and Task Force Recommendations

A. Scope of Documents Covered by ED-720

Background

13. ED-720 expanded the definition of Other Information to include not only documents that contain, but also certain documents that accompany, the audited financial statements and the auditor’s report thereon. Recognizing that it would be necessary to put parameters around this expansion of scope, the IAASB specified two criteria to determine if a document was in scope.

14. Firstly, all documents within the scope of ED-720 would need to be issued by the entity “in connection with the initial release” of the audited financial statements (see paragraphs 9(b) and 9(c) of Agenda Item 5.2). This test was intended to limit the time period during which documents could be produced and be in scope by requiring in-scope documents to be connected with the first release of the audited financial statements and audit report to users.

15. Secondly, ED-720 limited the scope of documents covered by requiring in-scope accompanying documents to have a primary purpose of providing commentary to enhance users’ understanding of the audited financial statements or the financial reporting process (see paragraph 9(c) of Agenda Item 5.2). This test was intended to narrow the types of accompanying documents to those containing other information that was likely to be within the knowledge of the auditor, and more likely to help the auditor determine which accompanying documents are more likely to have been issued in connection with the initial release.

16. ED-720 also included application material to aid auditors in applying the concepts behind these two criteria given a range of different regulatory regimes around the world. For example, ED-720 include guidance explaining that initial release may occur when the audited financial statements are distributed for a general meeting of shareholders or when they are filed with a regulator or securities exchange.

Respondents’ Comments

Comments on the Concept of Initial Release

17. Some stakeholder groups, such as investors and public sector auditors, broadly supported the use of the concept of “initial release.” For example, a respondent noted that the proposals, including the use of the term “initial release,” to broaden the scope of
documents covered by ISA 720 better reflected of the reality and the practices of the entities and the practical situation in various countries.  

18. Some regulators, however, expressed concern about the concept, noting, for example that:
   - It may be difficult to interpret, for example, in jurisdictions where multiple financial statements and auditor’s report are prepared under different requirements (such as dual-listed companies, who may have more than one “initial release”).
   - It may create incentives for entities “to structure their reporting to either exclude some other information from the scope of the standard or to time the release of other information so that it is not covered by a statement in the auditor’s report.”

19. Other regulators supported the concept but noted that it would require considerable auditor judgment in some circumstances and may lead to inconsistent application.

20. In a broad sense, other stakeholder groups such as firms, NSS, and IFAC Member Bodies shared similar concerns about the proposed concept of “initial release.” For example, comments included that:

   **Overall Matters**
   - It would be difficult to interpret in practice and may lead to inconsistent application.
   - The application material is not particularly helpful; it should be expanded to explain what may be a reasonable period of time for the auditor’s responsibility regarding Other Information; and it should illustrate common examples of Other Information that would be included or excluded.

   **Scope Matters**
   - The concept of “initial release” may not be broad enough to capture all documents upon which users will rely.
   - NSS should be encouraged to more precisely define what documents would be in scope for their jurisdiction.

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12 CNCC/CSOE
13 EAIG, CPAB, ICAC, IOSCO, MAOB
14 IOSCO
15 IAIS, See also AAA, MNP.
16 IAIS, UKFRC
17 UKFRC,
18 AICPA, ANOORALI, ASSIREVI, AUASB, BDO, BT, CAASB, DTT, EAIG, EYG, FEE, GAO, HQ, ICAC, ICAEW, ICPAS, IDW, IIA, IPAR, IRE-IBR, JICPA, NBA, NYSSCPA, PWC, RCA, SAICA
19 See HQ and PWC for example.
20 KPMG
21 IRBA, KPMG
22 WPK
23 FRC
- The expansion of the scope of documents covered may clash with local law or regulation.  
- The IAASB should not impose obligations on the auditor with respect to Other Information obtained after the date of the auditor’s report.

**Other Matters**

- The concept of “initial release” may be confused with ‘the date the financial statements are issued’ in ISA 560 by auditors or users, and
- The definition does not accord with the ordinary meaning of the term “initial” as it extends past the date the financial statements were issued.

**Comments on Limiting the Scope of Accompanying Documents by Reference to Their Purpose**

21. Investors, individuals, and public sector auditor respondents broadly supported the expansion of the scope to include documents accompanying the audited financial statements, and which have a primary purpose of providing commentary to enhance users’ understanding of the audited financial statements or the financial reporting process.

22. Regulators, firms, NSS and preparer respondents had more mixed views. Supporters of the position adopted in ED-720 noted that this change recognized that financial reporting had evolved and involved more than just the issuance of an annual report. However, there was a wide diversity of views expressed on a range of topic related to the ‘purpose’ of the Other Information. Views included:

**Overall Matters**

- Further development or clarification of the principles of ISA 720 is needed to permit consistent application to a variety of circumstances, particularly given that the current proposals may be seen as impractical.
- The definition would lead to inconsistent application in practice or widen the expectations gap.

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24 ICJCE  
25 DTT, BDO, CAQ, GTI, IDW, ICPAS, IRBA,  
26 ISA 560, Subsequent Events  
27 AUASB, GTI, HKICPA, ICAA, IRBA, Ki, NZAUASB, PWC  
28 WK  
29 Respondents within these groups that did not support the changes included AICPA, FSR, ICAA, ICPAS, and ZICA.  
30 CBamard, CNCC/CSEOEC, EFAA, ICAS  
31 IOSCO, EYG, PWC  
32 BCBS, CPAB, DTT, EAIG, GTI, IAIS, Ki, MAOB, RSM  
33 AICPA, ASSIREVI, AUASB, BCBS, CAQ, DTT, EFAA, FAR, FEE, HKICPA, ICAA, ICPAS, IRBA, IRE-IBR, JICPA, Ki, MIA(Malaysia), NYSSCPA

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Scope Matters

- The scope of ISA 720 should be expanded to include all documents that accompany the initial release of the audited financial statements.\(^{34}\)
- Further clarification of the boundaries of Other Information is needed.\(^{35}\)
- Further documents, particularly those specified by regulators, should be specifically scoped in.\(^{36}\)
- There may be a role for NSS in clarifying the scope of documents covered in each jurisdiction.\(^{37}\)
- The scope should be narrowed to documents containing commentary on the audited financial statements,\(^{38}\) or should exclude documents relating to the financial reporting process.\(^{39}\)
- Agreeing with management what the Other Information comprises should be central to the requirement.\(^{40}\)
- Auditors may not be aware of all documents in scope.\(^{41}\)
- Electronic media (such as websites, presentation slides and social media) should be specifically excluded\(^{42}\) or included\(^{43}\) or otherwise addressed.\(^{44}\)

Other Matters

- Auditors may not have sufficient skills to identify material inconsistencies in certain types of Other Information.\(^{45}\)
- Management may not co-operate or may alter hyperlinked documents.\(^{46}\) and
- Conforming amendments would be needed to ISA 580\(^{47}\) to require the auditor to seek to obtain management representations regarding the Other Information.\(^{48}\)

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34 Eumedion, HEOS
35 ACAG, ACCA, CAASB, FEE, GAO, IBRACON, IDW, MIA(Malta)
36 BCBS, IAIS, EAIIG
37 CPAB
38 DTT, HQ, KI
39 KPMG
40 DTT, KPMG
41 MNP
42 NAOUK
43 ACCA, FEE
44 IRBA, NZAUASB
45 ASSIREVI
46 AUASB, CNCC/CSOEC, FAR
47 ISA 580, *Written Representations*
48 DTT, IRBA
Task Force Proposals

23. The Task Force acknowledged the concerns of respondents who suggested that the scope of documents covered by ED-720 could be clarified and simplified. In particular, the Task Force noted a general consensus among the majority of respondents that the articulation of the scope of documents covered may lead to inconsistent understanding and application in practice.

24. To address the many concerns expressed in relation to the scope of documents covered by ED-720, the Task Force developed an alternative approach to describing which documents are in scope:

- Building on the approach in extant ISA 720, the Task Force focused on Annual Reports, and other document(s) that contain information similar to that typically contained in an Annual Report, as the concept upon which to base the definition of Other Information.
- The Task Force also acknowledged the need for a ‘catch-all’ provision that would include other documents that are specifically agreed with management or those charged with governance.

25. The Task Force believes that this approach is consistent with the intent of ED-720, but would be easier for practitioners, regulators, users and other stakeholders both to understand and to communicate. This approach would not preclude national regulators or standard setters from specifying other documents that should be treated as containing information similar to that typically contained in an annual report.

26. To support this simplified approach, the Task Force recommends: (i) a revised definition of Other Information which is focused on Annual Reports; and (ii) the introduction of a definition of an Annual Report. The definitions are as follows:

Other Information

Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in:

(i) An annual report or other document(s) that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains or accompanies the financial statements and the auditor’s report thereon; or

(ii) Another document issued or made available to owners (or similar stakeholders) that the auditor has agreed with the entity to be read and reported upon in accordance with this ISA.

An annual report or other document accompanies the financial statements when it is intended to be associated with, or is issued in connection with, the financial statements.
Annual Report

A comprehensive report on an entity’s activities throughout the preceding year prepared by management and/or those charged with governance. The purpose of an annual report is to give equity owners and other stakeholders information about the company’s activities, financial condition, outlook and risks. Most jurisdictions require certain entities, such as companies and entities listed on a stock exchange, to prepare and publicly disclose annual reports.—Annual reports comprise various elements, and often include management commentary, operating and financial review or similar reports by those charged with governance (for example, directors’ report); a Chairman’s statement; a corporate governance statement; an internal control report; and a risk assessment reports.

27. Appendix 3 compares extant ISA 720, ED-720 and the Task Force proposals.

28. This approach does not require use of the term “initial release” which, as noted in paragraphs 18-21 above, many respondents found problematic. The Task Force have retained the concept of “accompanying” and noted that an annual report or other document accompanies the financial statements when it is intended to be associated with, or issued in connection with, the financial statements

Responsibility for Other Information Past the Date of the Auditor’s Report

29. In relation to the comments received about ED-720 imposing an obligation beyond the date of the auditor’s report, the Task Force notes that extant ISA 720 already requires that “if it is not possible to obtain all the other information prior to the date of the auditor’s report, the auditor shall read such other information as soon as is practicable.”49 Accordingly, the proposals in ED-720 were not, in principle, an expansion in the auditor’s responsibilities in this respect.

30. The Task Force recognizes that some of the concerns around the responsibility for Other Information in documents received after the date of the auditor’s report arise because the expansion of the scope of the ISA to include accompanying documents may increase the number of such documents. The Task Force also recognizes that, given the introduction of reporting on Other Information in ED-720, there are concerns that differences in the relative timing of the dating of the auditor’s report between individual audits may lead to inconsistency in the scope of Other Information referred to in the auditor’s report. For example, Other Information for one entity, issued early in the reporting process, may be referred to in the auditor’s report but would be omitted if issued later in the entity’s reporting process.

31. Task Force believes it is in the public interest to require auditors to continue to have responsibility for Other Information issued after the date of the auditor’s report, as this was the position in extant ISA 720. However, the Task Force has not yet considered the reporting implications of this in full and intends to deliberate this further.

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49 ISA 720, paragraph 7.
Matters for IAASB Consideration

1. Does the IAASB support the Task Force’s proposal to focus on Annual Reports or similar documents as the basis for a tighter and more understandable definition of Other Information?

2. What views does the IAASB hold on the proposed definitions of Other Information and Annual Reports?

3. Does the IAASB continue to support the Task Force view that it is in the public interest for the auditor to continue to have responsibilities for in-scope documents received after the date of the auditor’s report, subject to further deliberation by the Task Force of the implications thereof in relation to communications in the auditor’s report?

B. Expansion of the Work Effort Beyond “Reading” the Other Information

32. **Background**

33. ED-720 included a single, principle-based requirement (paragraph 11 of Agenda Item 5.2) to cover the auditor’s work effort in addressing 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.

34. This requirement was followed by required actions by the auditor if the auditor identifies that there may be a “material inconsistency” in the Other Information. Paragraph 12 of ED-720 and the associated definition of “inconsistency” are reproduced below.

**Requirement**

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.

**Definition**

Inconsistency in the other information – An inconsistency in the other information exists when the other information:

(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.
Respondents’ Comments

35. At a high level, investors and individuals were generally supportive of the proposals. For example, an investor respondent\textsuperscript{50} supported the IAASB’s aim to strengthen auditors’ ability to identify if there may be material inconsistencies in the other information and, if so, to respond appropriately. In contrast, regulators and public sector auditors expressed concerns about these requirements,\textsuperscript{51} as did Firms, NSS and IFAC member bodies, as discussed below.

36. Concerns expressed included that the terms used in the work effort requirement, such as “read and consider” and “inconsistency in the other information” were too subjective and that the requirements and application material would not be sufficient to guide the auditor’s work effort in a consistent manner.\textsuperscript{52} These concerns led respondents to believe that the changes would lead to divergence in practice. Some thought that this would create difficulty for auditors to challenge management and cause enforceability issues.\textsuperscript{53}

37. Others expressed concerns that these requirements and guidance would give rise to expectations amongst users that went too far, including that they were changing the scope of the audit.\textsuperscript{54} Further, it was noted that the term “consider” was being used in a manner which required a more active work effort than was implied by the usage of the term in other ISAs (where it essentially means for the auditor “to apply his or her mind to the matter”).\textsuperscript{55} A few respondents also found the use of the word ‘inconsistency’ confusing because the natural meaning of inconsistency involves a comparison, which was not explicitly stated in ED-720.\textsuperscript{56}

38. It was also commented that the terms “inconsistency” and “material inconsistency” needed further clarification to be useful.\textsuperscript{57} Further, a respondent suggested that the objective should be framed in terms of avoiding association with misleading information.\textsuperscript{58}

39. Respondents also commented on the phrase “in light of the auditor’s understanding of the entity and its environment.” While many respondents supported this phrase,\textsuperscript{59} other respondents had significant concerns about the implications for the work effort or reporting. A few respondents found the phrase confusing.\textsuperscript{60} Comments included:

\textsuperscript{50} ICGN
\textsuperscript{51} See, for example IOSCO and IRBA
\textsuperscript{52} See, for example, EAIG, CPAB, ICAS, IOSCO, IRBA, MAOB, PWC, RSM.
\textsuperscript{53} IOSCO
\textsuperscript{54} JICPA
\textsuperscript{55} ICAEW, IDW, PWC
\textsuperscript{56} BT, ICAEW
\textsuperscript{57} See, for example, ICAA, ICAEW, KPMG.
\textsuperscript{58} IDW
\textsuperscript{59} AGNZ, AICPA, ASSIREVI, AUASB, CAASB, CIPFA, CNCC/CSOEC (good quote), D. Juvenal, EFAA, EUMEDION, FAR, HEOS, ICAP, ICGN, IPAR, KI, KPMG, MIA (Malaysia), NZAUASB, RCA, RSM, Swedish NAO, WAO, ZICA
\textsuperscript{60} GAO, HQ
Overall Matters

- The phrase is too broad or subjective to be capable of consistent implementation across a range of audits.\(^{61}\)
- Referring to "understanding" rather than the audited financial statements expands the scope of the audit.\(^{62}\)
- Difficult to apply the auditor’s understanding to documents that are less closely related to the audited financial statements.\(^{63}\)
- Users will not understand the phrase when used in the auditor’s report.\(^{64}\)

Comments on the Terms Used in the Phrase “in light of the auditor’s understanding of the entity and its environment”

- Meaning of “auditor” should be clarified as it depends on who does the reading.\(^{65}\)
- The phrase should reference the audited financial statements,\(^{66}\) refer to “based on” rather than “in light of”,\(^{67}\) refer to the audited financial statements,\(^{68}\) and/or refer to professional skepticism.\(^{69}\)
- All the auditor’s understanding should be applied, not just that acquired in the course of the audit.\(^{70}\)
- The level of understanding needed should be clarified.\(^{71}\) and

Other Comments

- The phrase is difficult to align with the guidance.\(^{72}\)

40. However, there were positive comments that showed support for the objective and work effort requirements believed that these terms were clear and appropriate.\(^{73}\)

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\(^{61}\) BDO, BT, CACR, C. Bamard, FEE, HKICPA, ICPAS, IDW, IRE-IBR, JICPA, MAOB, MNP, NBA, PWC, MIA(Malaysia), PP
\(^{62}\) DTT, FAR
\(^{64}\) ACCA, GTI, HQ, ICAA, IRBA, KI, WPK
\(^{66}\) HKICPA, FRC, ICPAS, KPMG, NAO, PWC,
\(^{68}\) IDW, PWC, WAO
\(^{67}\) DTT, ICAEW, IRBA,
\(^{69}\) EYG, GTI,
\(^{70}\) HEOS
\(^{71}\) FRC, IAIS, IDW, IRBA, though other respondents explicitly disagree. See, for example, ICAS
\(^{72}\) FRC, IAIS, IDW, IRBA, though other respondents explicitly disagree. See, for example, ICAS
\(^{73}\) BCBS
\(^{72}\) ACAG, IIA, NAO,
\(^{73}\) See, for example, HEOS.
Task Force Proposals

41. The Task Force acknowledges the concerns expressed by some respondents. To address these comments, the Task Force proposes several changes to provide a basis for a more consistent work effort by the auditor.

42. It is important to note that not all aspects of the auditor’s work effort, and the implications for the auditor’s report, have yet been fully considered by the Task Force. Further, the Task Force acknowledges that consideration of the application material will be needed to give full effect to these changes.

43. The Task Force proposes to amend paragraph 11 to state:

11. The auditor shall, in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit, read the other information. In reading the other information, the auditor shall consider whether there may be an inconsistency between the other information and:

(a) The audited financial statements, or
(b) The auditor’s understanding of the entity and its environment acquired during the audit

that indicates that the audited financial statements may be materially misstated or that there may be a material misstatement of fact in the other information.

The Task Force also proposes to define “material misstatement of fact” as follows:

Material misstatement of fact – A misstatement of fact exists when the other information is incorrect or presents a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor’s report is prepared (taken on the basis of the audited financial statements and the other information as a whole).

44. The changes to paragraph 11 comprise three essential parts. Firstly, the “read” requirement has been separated from the “consider” requirement. This change has the merit of enabling the meaning of “consider” to align with that used in other ISAs.

45. Secondly, the term “inconsistency” is no longer defined so that it can take its ordinary dictionary meaning.

46. Thirdly, the proposed requirement uses the term “misstatement of fact” (based on the concept from extant ISA 720) to refer to any ‘error’ in the Other Information, in order to respond to the concerns about the use of the term “Inconsistency in the Other Information” in ED-720.

47. Appendix 4 explains the changes to the definition of “material misstatement of fact” from extant ISA 720.

48. From the above, the auditor should be considering the possible implications of any apparent inconsistencies that arise when reading the Other Information; that is, whether the audited financial statements may be materially misstated, whether there may be a
material misstatement of fact, or whether the auditor’s understanding of the entity and its environment may be wrong. The auditor would then undertake other actions, depending on which of these three outcomes is implied.

49. The decision tree below illustrates the operation of paragraph 11:

![Decision Tree Diagram]

The Task Force believes that the above changes are a significant improvement which should address many of the concerns expressed by respondents.

50. The Task Force needs to further consider these proposals in light of respondents’ comments on the remainder of ED-720 requirements and application material, including that material which guided the auditor concerning the nature and extent of active steps appropriate in the circumstances in considering the other information in light of the auditor’s understanding, such as reconciling amounts or referring to or comparison with the audit documentation. The Task Force also needs to further consider the implication of these proposals in relation to communications in the auditor’s report. Nevertheless, the Task Force invites comments on the direction proposed by the Task Force.

### Matter for IAASB Consideration

4. What are the IAASB’s views on the direction proposed by the Task Force regarding paragraph 11 and the definition of “misstatement of fact”? 

### C. Securities Offering Documents

51. ED-720 included application material that noted that securities offering documents would be within the scope of the ISA if it met the criteria, but would not otherwise be included.
52. Investors were comparatively silent on this point, with only one\textsuperscript{74} expressing support for the proposal. Regulators expressed mixed views. For example, some IOSCO members believe that securities offering documents should be explicitly included within a revised ISA 720 (see below for specific reasons), while other IOSCO members believed that they should be excluded, as securities offering documents are usually covered by local law or regulation (see below for other specific reasons). Other respondents had mixed views including, for example, that:

Comments in support of the position adopted in ED-720\textsuperscript{75}

• The definition of Other Information should be consistently applied; therefore, if securities offering documents are within the scope of Other Information then they should be read and considered by the auditor.\textsuperscript{76}

Comments in support of the inclusion of securities offering documents\textsuperscript{77}

• Auditor attention on securities offering documents may have helped prevent specific accounting issues.\textsuperscript{78}

• Securities offering documents should be within the scope of ISA 720 if the specific circumstances warrant it.\textsuperscript{79}

• TCWG should be able to decide if they want securities offering documents included.\textsuperscript{80}

Comments opposed to the inclusion of securities offering documents\textsuperscript{81}

• Inclusion of securities offering documents in the scope of ISA 720 may conflict with national law or regulation which addresses the auditor's responsibilities in such circumstances.\textsuperscript{82}

• ISA 720 should only deal with regular, recurring documents.\textsuperscript{83}

• Securities offering documents should be explicitly excluded to minimize the degree of judgment required by the auditor;\textsuperscript{84}

\textsuperscript{74} HEOS

\textsuperscript{75} Some commentators supported the position adopted in ED-720, but did not provide a rationale. These included D. Juvenal, FAR, HEOS, ICAS, NZAUASB, RCA, Swedish NAO

\textsuperscript{76} FEE, FRC, JICPA, NYSSCPA,

\textsuperscript{77} A respondent supported the inclusion of securities offering documents in the scope of ISA 720, but did not provide a rationale: RSM

\textsuperscript{78} AAA

\textsuperscript{79} ACCA

\textsuperscript{80} IIA

\textsuperscript{81} Some respondents believed that securities offering documents should be excluded from the scope of ISA 720, but did not provide a rationale. These included C. Barnard, CIPFA, FSR, NAO, PP, WAO

\textsuperscript{82} ACCA, AGNZ, ASSIREVI, AUASB, BDO, BT, CAASB, CNCC/CSOEC, DTT, EAIG, EFAA, EYG, GTI, HKICPA, HQ, ICAA, ICAEW, ICAP, ICPAS, IPAR, IRE-IBR, KI, MAOB, MIA(Malaysia), MNP, NBA, PWC, SAICA, ZICA

\textsuperscript{83} ANOORALI
Securities offering documents are often issued at a significantly different time to the audited financial statements, so inconsistencies may have developed purely due to the passage of time.\textsuperscript{85} and

The primary purpose of a securities offering document is not to provide commentary to enhance the users' understanding of the audited financial statements.\textsuperscript{86}

53. After considering respondents' comments, the Task Force concluded that securities offering documents should be excluded from the scope of ISA 720 (Revised). National law or regulation usually addresses the auditor's responsibilities in relation to these documents, and imposing an obligation on auditors under ISA 720 is therefore likely to create conflicts with those laws or regulations. After the June IAASB meeting, the Task Force will consider whether ISA 720 should include a note that it may be "applied, adapted as necessary" to securities offering documents.

Matter for IAASB Consideration

5. Does the IAASB agree with the Task Force's proposal to exclude securities offering documents?

\textsuperscript{84} CACR
\textsuperscript{85} IRBA,
\textsuperscript{86} KPMG, NBA,
# Appendix 1

List of Respondents to the Exposure Draft on ISA 720

<table>
<thead>
<tr>
<th>#</th>
<th>Abbrev.</th>
<th>Respondent (74)</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Investors and Analysts (3)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>ICGN</td>
<td>International Corporate Governance Network</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>2.</td>
<td>EUMEDION</td>
<td>Eumedion (Dutch Institutional Investors)</td>
<td>EU</td>
</tr>
<tr>
<td>3.</td>
<td>HEOS</td>
<td>Hermes Equity Ownership Services</td>
<td>GLOBAL</td>
</tr>
<tr>
<td></td>
<td><strong>Regulators and Oversight Authorities (9)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>5.</td>
<td>CPAB</td>
<td>Canadian Public Accountability Board</td>
<td>NA</td>
</tr>
<tr>
<td>6.</td>
<td>EAIG</td>
<td>European Audit Inspection Group (15 European Regulators)</td>
<td>EU</td>
</tr>
<tr>
<td>7.</td>
<td>FRC</td>
<td>Financial Reporting Council (UK)</td>
<td>EU</td>
</tr>
<tr>
<td>8.</td>
<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>9.</td>
<td>ICAC</td>
<td>Ministerio de Economía y Competitividad (Instituto de Contabilidad y Auditoría de Cuentas) [Ministry of Economics and Competitiveness (Institute of Accounting and Audit)]</td>
<td>EU</td>
</tr>
<tr>
<td>10.</td>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>11.</td>
<td>IRBA</td>
<td>Independent Regulatory Board for Auditors (South Africa)</td>
<td>MEA</td>
</tr>
<tr>
<td>12.</td>
<td>MAOB</td>
<td>Securities Commission of Malaysia - Audit Oversight Board</td>
<td>AP</td>
</tr>
<tr>
<td></td>
<td><strong>Those Charged with Governance (2)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>14.</td>
<td>AICD</td>
<td>Australian Institute of Company Directors</td>
<td>AP</td>
</tr>
<tr>
<td></td>
<td><strong>National Auditing Standard Setters (5)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>ASB</td>
<td>American Institute of Certified Public Accountants’ Auditing Standards Board</td>
<td>NA</td>
</tr>
<tr>
<td>16.</td>
<td>AUASB</td>
<td>Australian Auditing and Assurance Standards Board</td>
<td>AP</td>
</tr>
<tr>
<td>17.</td>
<td>CAASB</td>
<td>Canadian Auditing and Assurance Standards Board</td>
<td>NA</td>
</tr>
<tr>
<td>18.</td>
<td>NBA</td>
<td>Nederlandse Beroepsorganisatie van Accountants</td>
<td>EU</td>
</tr>
<tr>
<td>19.</td>
<td>NZAuASB</td>
<td>New Zealand Auditing and Assurance Standards Board</td>
<td>AP</td>
</tr>
<tr>
<td></td>
<td><strong>Accounting Firms (12)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.</td>
<td>BDO</td>
<td>BDO International Limited</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>21.</td>
<td>BT</td>
<td>Baker Tilly (UK)</td>
<td>EU</td>
</tr>
<tr>
<td>22.</td>
<td>DTT</td>
<td>Deloitte Touche Tohmatsu Limited</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>23.</td>
<td>EYG</td>
<td>Ernst &amp; Young Global Limited</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>24.</td>
<td>GTI</td>
<td>Grant Thornton International Ltd</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>25.</td>
<td>KI</td>
<td>Kreston International</td>
<td>NA</td>
</tr>
<tr>
<td>26.</td>
<td>KPMG</td>
<td>KPMG IFRG Limited (Network)</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>27.</td>
<td>MNP</td>
<td>MNP LLP – formerly Meyers Norris Penny (Canada)</td>
<td>NA</td>
</tr>
<tr>
<td>28.</td>
<td>PP</td>
<td>Pitcher Partners (Australia)</td>
<td>AP</td>
</tr>
<tr>
<td>29.</td>
<td>PwC</td>
<td>PricewaterhouseCoopers International Limited</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>30.</td>
<td>RSM</td>
<td>RSM International</td>
<td>GLOBAL</td>
</tr>
<tr>
<td>31.</td>
<td>WK</td>
<td>Westworth Kemp Consultants (Australia)</td>
<td>AP</td>
</tr>
</tbody>
</table>

### Public Sector Organizations (6)

| 32. | ACAG | Australasian Council of Auditors-General | AP |
| 33. | AGNZ | Auditor General of New Zealand | AP |
| 34. | GAO | United States Government Accountability Office | NA |
| 35. | NAOUK | National Audit Office (UK) | EU |
| 36. | NAOS | National Audit Office (Sweden) | EU |
| 37. | WAO | Wales Audit Office | EU |

### Preparers of Financial Statements (1)

| 38. | HQ | Hydro Quebec | NA |

### Member Bodies and Other Professional Organizations (30)

| 39. | ACCA | Association of Chartered Certified Accountants | GLOBAL |
| 40. | ASSIREVI | Associazione Italiana Revisori Contabili (Association of the Italian Auditors) | EU |
| 41. | CACR | Chamber of Auditors Czech Republic | EU |
| 42. | CAQ | Center for Audit Quality | NA |
| 43. | CNCC/CSO EC | Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables | EU |
| 44. | CPAA | CPA Australia | AP |
| 45. | CIPFA | Chartered Institute of Public Finance & Accountancy | GLOBAL |
| 46. | EFAA | European Federation of Accountants and Auditors for SMEs | EU |
| 47. | FAR | FAR (Institute for the Accountancy Profession in Sweden) | EU |
| 48. | FEE | Fédération des Experts comptables Européens - Federation of European Accountants | EU |
| 49.  | FSR | Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants) | EU |
| 50.  | HKICPA | Hong Kong Institute of Certified Public Accountants | AP |
| 51.  | IBACON | Instituto dos Auditores Independentes do Brasil | SA |
| 52.  | ICAA | Institute of Chartered Accountants in Australia | AP |
| 53.  | ICAEW | Institute of Chartered Accountants in England and Wales | EU |
| 54.  | ICAP | Institute of Chartered Accountants of Pakistan | AP |
| 55.  | ICAS | Institute of Chartered Accountants of Scotland | EU |
| 56.  | ICJCE | Instituto de Censores Jurados de Cuentas de España | EU |
| 57.  | ICatas | Institute of Certified Public Accountants of Singapore | AP |
| 58.  | IDW | Institut der Wirtschaftspruefer in Deutschland e.V. | EU |
| 59.  | IPAR | Institute of Professional Accountants of Russia | EU |
| 60.  | IBR-IRE | Institut des Experts-comptables et des Conseils Fiscaux (Institut Van de Accountants en de Belastingconsulenten) & Instituut van de Bedrijfsrevisoren (Institut des Réviseurs d'Entreprises) | EU |
| 61.  | JICPA | Japanese Institute of Certified Public Accountants | AP |
| 62.  | MIA | Malta Institute of Accountants | EU |
| 63.  | MIA | Malaysian Institute of Accountants | AP |
| 64.  | NYSSCPA | New York State Society of Certified Public Accountants | NA |
| 65.  | RCA | Russian Collegium of Auditors | EU |
| 66.  | SAICA | South African Institute of Chartered Accountants | MEA |
| 67.  | WPK | Wirtschaftsprüferkammer (German Public Accountants MB) | EU |
| 68.  | ZICA | Zambia Institute of Chartered Accountants | MEA |
| 69.  | AAA | American Accounting Association - Auditing Standards Committee of the Auditing Section | NA |

**Academics (1)**

| 70.  | ANAli | Altaf Noor Ali | AP |
| 71.  | CBarnard | Chris Barnard (Affiliated with ESMA, Germany) | EU |
| 72.  | DJuvenal | Denise Juvenal | SA |
| 73.  | DScott | Derek Scott (ICAS member) | EU |
| 74.  | IG | Insolvency Guardian | AP |
### Heat Map of Respondents’ Comments

<table>
<thead>
<tr>
<th>Respondent Group</th>
<th>Area of Comment</th>
<th>Broadening the scope of Other Information</th>
<th>Concept of Initial Release</th>
<th>Securities Offering potentially in scope</th>
<th>Concept of Understanding of the entity and its environment</th>
<th>Read and consider includes financial statements</th>
<th>Definitions of “Inconsistency sand “material inconsistency” are appropriate</th>
<th>Principles based requirement for work effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors (3)</td>
<td>Some</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>TCWG (2)</td>
<td>Some</td>
<td>Low</td>
<td>Some</td>
<td>Low</td>
<td>High</td>
<td>Some</td>
<td>High</td>
<td>Some</td>
</tr>
<tr>
<td>Regulators (9)</td>
<td>Some</td>
<td>Some</td>
<td>Mixed</td>
<td>Some</td>
<td>Some</td>
<td>Some</td>
<td>Some</td>
<td>Some</td>
</tr>
<tr>
<td>NSS (5)</td>
<td>Some</td>
<td>Some</td>
<td>Low</td>
<td>Some</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>High</td>
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<tr>
<td>Firms (12)</td>
<td>Some</td>
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<td>Some</td>
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<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Public Sector Auditors (6)</td>
<td>Some</td>
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<td>Low</td>
<td>Some</td>
<td>Some</td>
<td>Some</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Preparer (1)</td>
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<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Some</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Member Bodies (30)</td>
<td>Some</td>
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<td>Some</td>
<td>Some</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Academic (1)</td>
<td>N/A</td>
<td>Low</td>
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<td>Some</td>
<td>High</td>
<td>High</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Individuals (5)</td>
<td>High</td>
<td>High</td>
<td>Some</td>
<td>High</td>
<td>High</td>
<td>Some</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
Illustration of Key Issues in Extant ISA 720, ED-720 and Task Force Proposals

<table>
<thead>
<tr>
<th>Extant ISA 720</th>
<th>ED-720</th>
<th>Task Force Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition of Other Information and Related Concepts</strong></td>
<td><strong>Other information</strong> – Financial and non-financial information (other than the 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.</td>
<td><strong>Other information</strong> – 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:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) Contains the audited financial statements and the auditor’s report thereon; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td></td>
<td><strong>Other information</strong> – Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in:</td>
<td>(i) An annual report or other document(s) that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains or accompanies the financial statements and the auditor’s report thereon, or</td>
</tr>
<tr>
<td></td>
<td>(i) Another document issued or made available to owners (or similar stakeholders) that the auditor has agreed with the entity to be read and reported upon in accordance with</td>
<td>(ii) Another document issued or made available to owners (or similar stakeholders) that the auditor has agreed with the entity to be read and reported upon in accordance with</td>
</tr>
</tbody>
</table>
### Extant ISA 720

**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.

### ED-720

**An annual report or other document accompanies the financial statements when it is intended to be associated with, or is issued in connection with, the financial statements. (Ref: Para. A7–A9B, A14–A21)**

### Task Force Proposal

**Annual Report** - A comprehensive report on an entity’s activities throughout the preceding year prepared by management and/or those charged with governance. The purpose of an annual report is to give equity owners and other stakeholders information about the company’s activities, financial condition, outlook and risks. Most jurisdictions require certain entities, such as companies and entities listed on a stock exchange, to prepare and publicly disclose annual reports. Annual reports comprise various elements, and often include management commentary, operating and financial review or similar reports by those charged with governance (for example, directors’
<table>
<thead>
<tr>
<th>Extant ISA 720</th>
<th>ED-720</th>
<th>Task Force Proposal</th>
</tr>
</thead>
</table>
| **Work Effort and Supporting Definitions** | 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. | The auditor shall, in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit, read the other information. In reading the other information, the auditor shall consider whether there may be an inconsistency between the other information and:  
(a) The audited financial statements; or  
(b) The auditor’s understanding of the entity and its environment acquired during the audit. |
| **Inconsistency** – Other information that contradicts information contained in the audited financial statements. A material inconsistency | **Inconsistency in the other information** – An inconsistency in the other information exists when the other information: | **Material misstatement of fact** - A misstatement of fact exists when the other information is incorrect or presents |
Other Information—Issues Paper  
IAASB Main Agenda (June 2013)

<table>
<thead>
<tr>
<th>Extant ISA 720</th>
<th>ED-720</th>
<th>Task Force Proposal</th>
</tr>
</thead>
</table>
| may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the 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 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. | a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor’s report is prepared (taken on the basis of the audited financial statements and the other information as a whole). |
Marked Changes from Extant ISA 720 Definition of “Misstatement of Fact”

1. The Task Force proposes to use the term "misstatement of fact" from extant ISA 720, amended as follows:

   **Misstatement of Fact - A misstatement of fact exists when the other information is that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented - incorrect or presents a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A material misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor’s report is prepared (taken on the basis of the document containing audited financial statements and the other information as a whole).**

2. The changes to the definition:
   - Remove the limitation in the extant that limited such items to information not relating to matters included in the audited financial statements. That limitation was necessary in the extant definition because the work effort relating to the identification of ‘errors’ in information relating to matters included in the audited financial statements was proactive (see paragraphs 6 and 8–13 of extant ISA 720) whereas the work effort relating to information not relating to matters included in the audited financial statements was reactive (see paragraphs 14–16 of extant ISA 720). No such difference was proposed in ED-720 because all the Other information was intended to be considered in the light of the auditor’s understanding.
   - Uses the term “omit or obscures information” to align with paragraph 110.2 of the IESBA code.87
   - Clarify the meaning of the term ‘incorrectly stated or presented’ as comprising both factual and more qualitative errors arising from a presentation that omits or obscures important information. In doing so, the Task Force has drawn on the language in the definition of an ‘inconsistency in the Other Information’ in ED-720 whilst avoiding terms such as ‘inappropriate’ and ‘unreasonable’ that commentators found difficult to apply consistently.
   - Clarify that a Misstatement of Fact is material by reference to the normal definition of materiality used elsewhere in the ISAs rather than solely by reference to its impact on the credibility of the financial statements.

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87 International Ethics Standards Board for Accountants (IESBA), *Code of Ethics for Professional Accountants*