

Meeting: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: September 9–10, 2013

Agenda Item

B

The Auditor's Responsibilities Relating to Other Information – ISA 720

Objectives of Agenda Item

1. The objectives of this Agenda Item are:
 - To obtain the Representatives' views on the significant matters discussed by the IAASB at its June 2013 meeting and those to be discussed by the IAASB at its September 2013 meeting relating to proposed ISA 720¹ (Revised); and
 - To provide a report back to the Representatives on their comments and questions on the proposed ISA 720 (Revised) as discussed at the April 2013 CAG Meeting.

Project Status and Timeline

2. At the June 2013 IAASB meeting, the IAASB considered respondents' comments on the Exposure Draft of ISA 720² (Revised) (ED-720) in relation to key areas of comment. The IAASB is considering the remainder of respondents' comments and further Task Force proposals at its September 2013 meeting.
3. Appendix 1 of this paper provides a project history, including links to the relevant CAG documentation.

Outline of Responses Received

4. The comment period for the ED-720 closed on March 14, 2013. Seventy-four (74) comment letters were received. A detailed respondent list is included in Appendix 2, 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.
5. 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

¹ Proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

² 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*

(not just inconsistencies with the financial statements), and increase the transparency of the auditor's work on other information via the auditor's report.

6. Respondents' views about the proposals in ED-720 varied. 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 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.³
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*"⁴—a sentiment shared to varying degrees by other regulatory respondents⁵ and by some from other stakeholder groups.⁶ 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 from users.

Matters for CAG Consideration

A. Scope of Documents Covered by ED-720

Background

8. 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.
9. 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. 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.
10. 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. 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.

³ See, for example, the range of comments by Eumedion, DTT, HEOS, HQ, KI, and KPMG referenced in paragraph 22.

⁴ IOSCO

⁵ See, for example, IAIS, CPAB.

⁶ See, for example, AICD, SAICA, EFAA and AAA.

11. 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 – Initial Release

12. Some stakeholder groups, such as investors and public sector auditors, broadly supported the use of the concept of “initial release.” Some regulators, however, expressed concern about the concept, noting, for example that:
- It may be difficult to interpret,⁷ 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”).⁸
 - 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.”⁹
13. Other regulators supported the concept¹⁰ but noted that it would require considerable auditor judgment in some circumstances and may lead to inconsistent application.¹¹ 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 it would be difficult to interpret in practice, may lead to inconsistent application,¹² and that it should provide common examples of other information that would be included or excluded.¹³

Respondents' Comments – Limiting the Scope of Accompanying Documents by Reference to Their Purpose

14. 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.
15. Regulators, firms, NSS and preparer respondents had more mixed views.¹⁴ Supporters of the position adopted in ED-720 noted that this change recognized that financial reporting had evolved

⁷ CPAB, EAIG, ICAC, IOSCO, MAOB

⁸ IOSCO

⁹ IAIS. See also AAA, MNP.

¹⁰ IAIS, UKFRC

¹¹ UKFRC,

¹² 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

¹³ IRBA, KPMG

¹⁴ Respondents within these groups that did not support the changes included AICPA, FSR, ICAA, ICPAS, and ZICA.

and involved more than just the issuance of an annual report.¹⁵ However, there was a wide diversity of views expressed on a range of topic related to the ‘purpose’ of the other information including that more guidance was needed to enable consistent application to a variety of circumstances,¹⁶ particularly given that the current proposals may be seen as impractical¹⁷ and that the definition would lead to inconsistent application in practice or widen the expectations gap.¹⁸

16. Other common comments on the scope of other information included that the scope of ISA 720 should be expanded to include all documents that accompany the initial release of the audited financial statements;¹⁹ that further clarification of the boundaries of other information is needed;²⁰ that further documents, particularly those specified by regulators, should be specifically scoped in and²¹ that there may be a role for NSS in clarifying the scope of documents covered in each jurisdiction.²²

Task Force Proposals - Scope

17. 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.
18. To address the many concerns expressed in relation to the scope of documents covered by ED-720, the Task Force has clarified the definitions of other information, which is now focused on Annual Reports or similar documents, and introduced a definition of an Annual Report. 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.
19. To support this simplified approach, the Task Force recommends the following definitions of other information and annual report:

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

(i) An annual report that contains the financial statements and the auditor’s report thereon; and

¹⁵ CBarnard, CNCC/CSOEC, EFAA, ICAS

¹⁶ IOSCO, EYG, PWC

¹⁷ BCBS, CPAB, DTT, EAIG, GTI, IAIS, KI, MAOB, RSM

¹⁸ AICPA, ASSIREVI, AUASB, BCBS, CAQ, DTT, EFAA, FAR, FEE, HKICPA, ICAA, ICPAS, IRBA, IRE-IBR, JICPA, KI, MIA(Malaysia), NYSSCPA

¹⁹ Eumedion, HEOS

²⁰ ACAG, ACCA, CAASB, FEE, GAO, IBRACON, IDW, MIA(Malta)

²¹ BCBS, IAIS, EAIG

²² CPAB

(ii) *A 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 is intended to be read in conjunction with the financial statements and the auditor's report thereon.*

Annual Report - A comprehensive report prepared by management and/or those charged with governance on an entity's developments, financial results, and financial position. Annual reports are intended to provide owners (or similar stakeholders) with information about these matters, and any other matters required by law or regulation, or included by custom in the entity's jurisdiction. Annual reports comprise various elements, and often include commentary on the entity's operations and finances; a statement by the chair of the governing body; and reports covering corporate governance matters (for example, executive compensation).

20. The Task Force notes that these definitions:

- Are not restricted to just annual reports as the definition of other information includes “or other document 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 is intended to be read in conjunction with, the financial statements and the auditor's report thereon.” The Task Force believes that including such additional documents avoids narrowing the scope of ISA 720 (Revised) and is necessary to allow for consistent scoping of documents given the broad range of public reporting regimes around the world – for example where information that is within in the definition of an annual report is provided in a separate but related document in a particular jurisdiction.
- Remove the term “accompanies” that, although supported by many, some respondents found impractical to apply;
- Remove the consideration that the auditor and the entity could agree to include within the scope of ISA 720 a document that is not other information; and

The Task Force also notes that the definition of annual report is based on aspects of various corporate law regimes to provide a broad base for the definition.

21. The Task Force also clarified the application of these definitions via new or revised application material that:

- (a) Annual reports may include documents prepared for shorter or longer periods than one year (**See paragraph A1A of Agenda Item B.1**). Not for profit and public sector entities have stakeholders such as donors, legislatures and funding bodies who have information needs similar to owners (**See paragraph A1B of Agenda Item B.1**).
- (b) The auditor has no responsibility under this ISA regarding the documents within the scope of this ISA posted to a website or for any subsequent changes that may be made to such documents (**See paragraph A8 of Agenda Item B.1**). The Task Force acknowledges that some commentators wished for a more comprehensive responsibility with respect to entities' websites and the documents thereon. However, the Task Force notes that websites are outside of the auditor's control making any obligation with respect to entities' websites

ineffective. Mandating a comprehensive responsibility with respect to any and all other information on websites may also be seen as imposing an open-ended obligation as the other information would be difficult to circumscribe and may remain on the website for an indeterminate period of time.

- (c) Clarifies that integrated reports may be within scope if it contains information similar to that typically contained in an annual report, is provided to owners (or similar stakeholders) and is intended to be associated with the financial statements and the auditor's report thereon (**See paragraph A11 of Agenda Item B.1**).

This approach does not require use of the term "initial release" which, as noted above, many respondents found problematic.

Securities Offering Documents

22. 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.
23. Investors were comparatively silent on this point, with only one²³ 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). Some respondents supported the inclusion of securities offering documents as they believed that the definition of other information should be consistently applied, even to securities offering documents.²⁴ However, many respondents opposed the inclusion of securities offering documents, particularly because 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.²⁵

Task Force Proposals – Securities Offering Documents

24. 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.

Matter for CAG Consideration

1. Do Representatives support the revised definition of other information and the decision to exclude securities offering documents?

²³ HEOS

²⁴ FEE, FRC, JICPA, NYSSCPA,

²⁵ 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

B. Work Effort

Background

25. ED-720 included a single, principle-based requirement 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.*
26. 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.*

Definitions

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

- *Contains information that is incorrect, unreasonable or inappropriate; or*
- *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

27. At a high level, investors and individuals were generally supportive of the proposals. For example, an investor respondent²⁶ 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,²⁷ as did Firms, NSS and IFAC member bodies, as discussed below.
28. 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.²⁸ These concerns led respondents to believe that the changes would lead to divergence in

²⁶ ICGN

²⁷ See, for example IOSCO and IRBA

²⁸ See, for example, EAIG, CPAB, ICAS, IOSCO, IRBA, MAOB, PWC, RSM.

practice. Some thought that this would create difficulty for auditors to challenge management and cause enforceability issues.²⁹

29. It was also 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”).³⁰ 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-720.³¹
30. It was also commented that the terms “inconsistency” and “material inconsistency” needed further clarification to be useful.³² Further, a respondent suggested that the objective should be framed in terms of avoiding association with misleading information.³³
31. 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,³⁴ other respondents had significant concerns about the implications for the work effort or reporting. A few respondents found the phrase confusing.³⁵ Comments included that the phrase is too broad or subjective to be capable of consistent implementation across a range of audits³⁶ and that users will not understand the phrase when used in the auditor’s report.³⁷
32. However, there were positive comments that showed support for the objective and work effort requirements believed that these terms were clear and appropriate.³⁸

Task Force Proposals

33. The Task Force has restructured the key requirement to read the other information so that it better explains the expected work effort and is capable of consistent interpretation. **Paragraphs 11 and 11A of Agenda Item B.1** now state:
 11. *The auditor shall, based on 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:*
 - (a) *An inconsistency between the other information and the audited financial statements that may indicate the existence of a material misstatement in the audited financial statements; or*

²⁹ IOSCO

³⁰ ICAEW, IDW, PWC

³¹ BT, ICAEW

³² See, for example, ICAA, ICAEW, KPMG.

³³ IDW

³⁴ 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

³⁵ GAO, HQ

³⁶ BDO, BT, CACR, C. Barnard, FEE, HKICPA, ICPAS, IDW, IRE-IBR, JICPA, MAOB, MNP, NBA, PWC,

³⁷ ACCA, GTI, HQ, ICAA, IRBA, KI, WPK

³⁸ See, for example, HEOS.

(b) *A material misstatement of fact in the other information. (Ref: Para. A28–A43, A49)*

11A. *In fulfilling the requirement of paragraph 11, the auditor shall determine the nature and extent of procedures that, in the auditor’s professional judgment, are necessary in the circumstances and perform those procedures. (Ref: Para. A35A)*

34. The Task Force believes that these requirements better link the auditor’s work effort to the auditor’s understanding of the entity and its environment. The Task Force also notes:

- The term “in light of” has been replaced with “based on” which is easier to understand and translate.
- The term “consider” is the correct term to use for the work effort required by ISA 720 (Revised). The Task Force notes that “consider” is being used to mean “reflect upon” and, importantly, is backed up by **new paragraph 11A of Agenda Item B.1** which requires the auditor to determine the nature and extent of procedures that, in the practitioner’s judgment, are necessary in the circumstances with application material (**paragraphs A31A-B of Agenda Item B.1**) to outline relevant considerations that may be applicable.
- The use of the term “...may be an inconsistency... or a material misstatement of fact ...” in paragraph 11 indicates that the auditor is reading for the purpose of detecting apparent inconsistencies or material misstatements of fact. This is a clearer signal of the expected work effort in the requirements than ED-720 which only stated “read and consider” and gave further instruction via the application material – which was criticized by respondents as creating hidden requirements in the application material.
- Paragraph 11(a) has been crafted to set up a simpler and more common meaning of “inconsistency” that is more practical than that used in ED-720. An “inconsistency” is between the other information and the audited financial statements – and may indicate the existence of a material misstatement in the audited financial statements.
- **Paragraph 11A of Agenda Item B.1** also states that the auditor determines the nature and extent of procedures using professional judgment. Respondents had mixed views³⁹ on the approach taken in ED-720 to break the other information up into categories⁴⁰. The major concerns highlighted were that:
 - The work effort was too subjective;⁴¹

³⁹ Respondents that supported the categorization of other information proposed in ED-720 included ACAG, AGNZ, ASSIREVI, BDO, BT, CBarnard, CNCC/CSOEC, CPAB, DJuvenal, DTT, FRC, GAO, GTI, HEOS, ICAP, ICAS, ICPAS, IOSCO, IRBA, KI, NYSSCPA, NZAUASB, RCA, SAICA, Swedish NAO, WAO, WK, ZICA. Respondents opposed included ACCA, AICPA, ANOORALI, AUASB, BDO, BT, CAASB, EAIG, EFAA, EYG, FAR, FEE, HKICPA, HQ, IBRACON, IDW, IPAR, IRE-IBR, JICPA, KPMG, MAOB, PWC, RSM, WPK.

⁴⁰ The categories listed in A37 of ED-720 were quantitative financial information that is 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, and remaining other information.

⁴¹ ASSIREVI, BDO, HKICPA, HQ, IOSCO, JICPA, MAOB, NBA, NZAUASB, PWC, RSM.

- The work effort and categorization of other information was inappropriate, inefficient, or excessive,⁴²
- The application material favored one methodology over alternative approaches;⁴³ and
- The work effort suggested by the application material went beyond that implied by “read and consider”.⁴⁴

The Task Force agrees with the concerns expressed and highlights that, given the wide variety of other information around the world, the determination of procedures to be performed, if any, needs to be flexible and responsive to the engagement circumstances. The Task Force also noted comments from respondents⁴⁵ that the way the illustrative procedures were presented suggested that the auditor needed to perform all the procedures listed in the application material. Accordingly, the categorization of other information has been removed, and the detailed guidance on procedures moved to an Appendix (**see Appendix 2 of Agenda Item B.1**) to better show the illustrative nature of this list of procedures.

35. The Task Force also notes that the term “misstatement of fact” may be seen as inappropriate, given that the definition of material misstatement of fact includes “...when the other information is incorrectly stated or, in the auditor’s professional judgment, is inappropriately presented or otherwise misleading (for example, because it omits or obscures information necessary for a proper understanding of a matter)” (**see paragraph 9(a) of Agenda Item B.1**). The Task Force has continued to use the term but is open to proposals regarding a possible alternative term.

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

36. Several respondents also noted that the IAASB should not impose obligations on the auditor with respect to other information obtained after the date of the auditor’s report.⁴⁶
37. 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.”⁴⁷ Accordingly, the proposals in ED-720 were not, in principle, an expansion in the auditor’s responsibilities in this respect.
38. 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

⁴² ACCA, CAASB, EYG, FAR, FEE, IBRACON, KPMG, FEE, WPK RSM.

⁴³ ACCA, EFAA, FEE, GTI, HKICPA, IDW, IRE-IBR, KPMG, NYSSCPA, WPK.

⁴⁴ ASSIREVI, IBRACON, IDW, KPMG, NBA, PWC.

⁴⁵ BDO, GT, HKICPA, ICAEW, NYSSCPA, PWC.

⁴⁶ DTT, BDO, CAQ, GTI, IDW, ICPAS, IRBA,

⁴⁷ ISA 720, paragraph 7.

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.

39. 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 acknowledges that requiring the auditor to reissue, amend or other communicate to users in relation to other information received after the date of the auditor's report, or after the date the financial statements are issued, is entirely dependent on the auditor's legal rights in each jurisdiction. As these rights vary widely across the world, the Task Force does not believe that mandating reporting in such circumstances will be possible or effective.
40. Accordingly, the Task Force proposed two changes to ISA 720 (Revised) (see also paragraphs 45 and 46 below). First, the auditor is required to "take appropriate action" in light of the auditor's legal rights and responsibilities. Such action may include re-issuing the auditor's report, withdrawing from the engagement, discussing the matter with those charged with governance or regulators. Second, the need to take appropriate action will be limited to the circumstance when the other information contains a material misstatement of fact. That is, if the other information does not contain a material misstatement of fact, the auditor will have no further obligation.

Matters for CAG Consideration

2. Do Representatives support the work effort required by paragraphs 11 and 11A?
3. Do Representatives agree with that, consistent with extant ISA 720 and ED-720, it is in the public interest for auditors to have responsibilities for other information received after the date of the auditor's report?

C. Reporting

Background

41. ED-720 asked respondents if they 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.
42. A majority⁴⁸ of respondents did not support the use of these terms in the statement to be included in the auditor's report. Many of the concerns mirrored the concerns that terms used in the requirements, such as "read and consider" and "inconsistency," would confuse users and auditors alike. Some⁴⁹ commentators also believed that these terms would increase the expectations gap,

⁴⁸ ACCA, AGNZ, AICPA, ANOORALI, ASSIREVI, AUASB, BCBS, BDO, BT, CAASB, CACR, CIPFA, EYG, FAR, FRC, GTI, HEOS, HKICPA, HQ, ICAA, ICAEW, ICAP, ICAS, ICPAS, IDW, IPAR, IRBA, IRE-IBR, JICPA, MAOB, MIA (Malaysia), MNP, NAO, NBA, NYSSCPA, NZAUASB, PWC, RSM, SAICA, WPK.

⁴⁹ AGNZ, CAASB, EYG, HKICPA, ICPAS, IOSCO, KI, MNP, NZAUASB, WPK.

while others⁵⁰ believed that the terminology in the statement was too technical for users to fully understand.

43. ED-720 also asked if 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.
44. Respondents’ views on this statement were mixed.⁵¹ The major area of concern was that the statement on other information included in ED-720 (“We have not identified material inconsistencies in the other information”) may nevertheless be taken as assurance, particularly given that the form of the statement may be viewed as being similar to a limited assurance conclusion.⁵² Respondents⁵³ also noted that the statement on other information should reference management’s responsibilities for the preparation of the other information. Some⁵⁴ respondents preferred that the reporting be done by exception, that is, that the auditor should only include the statement in the auditor’s report if the statement would draw attention to a material inconsistency in the other information.

Task Force Response

45. The Task Force has considered the proposed statement to be included in the auditor’s report.⁵⁵ In drafting this statement, the Task Force focused on:
- Reporting by exception to avoid the risk of confusion with an assurance engagement that could have been implied by the statement in ED-720 (“We have not identified material inconsistencies in the other information”) when the auditor has not identified any uncorrected material misstatements of fact; and
 - Using a form of statement that is clearly different to any form of assurance conclusion in IAASB literature (“We have nothing to report in this regard.”)
46. **Paragraph A57 of Agenda Item B.1** now states:

Other Information

As part of our audit, we have read the following [document(s)/other information] available at the date of our auditor’s report:

⁵⁰ ACCA, AGNZ, ASSIREVI, FRC, IRE-IBR.

⁵¹ Supporters of the statement included AAA, CBarnard, DJuvenal, EUMEDION, GAO, IAIS, ICGN, IDW, IPAR, IRE-IBR, KI, MAOB, NZAUASB, Swedish NAO, IBRACON. Respondents expressing concern included ACAG, ACCA, ANOORALI, ASSIREVI, AUASB, BDO, BT, CAASB, CACR, DTT, EFAA, FAR, FEE, GTI, HQ, ICAA, ICAEW, ICPAS, IRBA, JICPA, KPMG, MNP, NAO, NBA, NYSSCPA, PWC, RCA, RSM, SAICA, WAO, ZICA.

⁵² AUASB, BDO, BT, CAASB, CACR, CPAB, DTT, FEE, GTI, HKICPA, HQ, IBRACON, ICAA, ICAEW, IRBA, MNP, NAO, NYSSCPA, PWC, RSM, SAICA, WAO,

⁵³ FAR, GTI, HKICPA, IAIS, ICAA, KPMG, RSM, CPAB,

⁵⁴ ASSIREVI, HKICPA, ICAA, KPMG, WK

⁵⁵ The *Reporting on Audited Financial Statements* ED (<https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international>) included a place holder for the statement on other information arising from ISA 720.

- *[Provide an appropriate reference to the other information, for example, specifying the document name and, if necessary, the relevant sections of the document (e.g., Chair’s Statement) to make clear to users that the audited financial statements and the auditor’s report thereon are excluded]*

We have a responsibility to read this [document(s)/other information]⁵⁶ based on our understanding of the entity and its environment acquired during the course of the audit. When reading this [document/other information], we consider whether there is an inconsistency between this [document(s) /other information] and the audited financial statements that may indicate the existence of a material misstatement in the audited financial statements, or whether there is a material misstatement of fact in this [document(s)/other information].

We also have a responsibility to report if we determine that such a material misstatement of fact exists in this [document(s)/other information] and it is not corrected. We have nothing to report in this regard.

However, we have not audited or reviewed this [document(s)/other information] and accordingly do not express an audit opinion or a review conclusion on it.

47. Appendix 2 illustrates how this statement may appear in the context of the full revised auditor’s reports in proposed ISA 700 (Revised).
48. The Task Force has also made improvements and clarifications elsewhere in the ISA to provide a more practical reporting framework. The reporting framework operates as follows:
 - (a) If the auditor identifies a material misstatement of fact in the other information, the auditor discusses the matter with management and performs other procedures, if necessary, to determine whether a material misstatement of fact does exist. **(see paragraph 12 of Agenda Item B.1)**
 - (b) The auditor requests management to correct the other information **(see paragraph 13(a) of Agenda Item B.1)**. If management agrees, then the statement in the auditor’s report is unmodified.
 - (c) If management does not agree, then the auditor communicates the matter with those charged with governance. **(See paragraph 13(b) of Agenda Item B.1)**
 - (d) If the other information is still not corrected then:
 - (i) When the other information is obtained before the date of the auditor’s report, issue a modified statement on the other information. **(See paragraph 16(c)(i) of Agenda Item B.1)**
 - (ii) When the other information is obtained after the date of the auditor’s report, the auditor takes appropriate action in accordance with ISA 560,⁵⁷ taking into account the auditor’s legal rights and obligations **(see paragraph 14(b) of Agenda Item B.1)**.

⁵⁶ It may be helpful to use a commonly understood term, such as “annual report” where such a term is appropriate given the composition of the other information.

⁵⁷ ISA 560, *Subsequent Events*

The application material also notes that taking appropriate action requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Appropriate actions include: reissuing the auditor's report to include a modified paragraph as per paragraph 16(c)(i); consider withdrawing from the audit where permitted by law or regulation; or taking advice from the auditor's legal counsel.

49. The Task Force has also drafted new paragraphs to better explain the relationship between ISA 720 and ISA 560. **New paragraphs A59A–B of Agenda Item B.1** explains that ISA 560 includes material regarding actions that the auditor takes when a fact becomes known to the auditor 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. Accordingly, ISA 560 applies if the auditor determines that there is a material misstatement of fact in the other information that was received after the date of the auditor's report, which would have required a modified statement according to **paragraph 16(c)(i) of Agenda Item B.1** if the other information had been received before the date of the auditor's report.
50. The Task Force also debated whether the statement should include reference to management's obligations to prepare the other information. As noted above, some respondents supported such a reference, however the Task Force was concerned that such a statement would (a) cause the other information statement to resemble, structurally at least, an assurance report; (b) be perceived as overly defensive; and (c) add additional length to the other information statement.

Matter for CAG Consideration

4. Do Representative support the reporting proposals as outlined above, particularly the move to reporting by exception.
5. Are there any other matters Representatives wish to raise?

IAASB Interaction with the IAASB CAG

51. The substantive issues being raised on the project for the purposes of the September 2013 IAASB meeting are included in this paper. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented –CAG PAPERS

Agenda Item B.1

Proposed ISA 720 (Revised) – Clean

Material Presented – IAASB CAG REFERENCE PAPER

[\[Link Pending\]](#)

Appendix 1

Project History

Project: Proposed ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2010	December 2009
Development of Proposed International Pronouncement (up to Exposure)	March 2010 September 2010 March 2011 September 2011 - March 2012 (project update)	March 2010 September 2010 March 2011 September 2011 December 2011 -
Exposure	September 2012	September 2012
Consideration of Respondents’ Comments on Exposure	April 2013 (Report back) September 2013	April 2013 (Update) June 2013 September 2013

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-1 of the following): http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&ViewCat=1245</p> <p>See CAG meeting minutes (in Agenda Item N of the following material): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following): http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364</p>
Development of Proposed International Pronouncement (Up to	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-2 of the following):</p>

Exposure)	<p>http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&ViewCat=1245</p> <p>See CAG meeting minutes (in Agenda Item N of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item M of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364</p> <p>See CAG meeting minutes (in Agenda Item M of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094</p> <p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item O of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&ViewCat=1493</p> <p>See CAG meeting minutes (in Agenda Item O of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf</p> <p>See report back on March 2011 CAG meeting (in paragraph 5 of the following)</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</p> <p><u>September 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</p> <p>See CAG meeting minutes (in Agenda Item F of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-Draft_September_2011_Public_Minutes-Marked-v3.pdf</p> <p>See report back on September 2011 CAG meeting (in paragraph 4 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASBCAG-Agenda_Item_E-1_ISA_720-Reportback-final.pdf</p>
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	<p>March 2012</p> <p>See IAASB CAG meeting material: (in Agenda Item C of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf</p>
Exposure	<p>September 2012</p> <p>See IAASB CAG meeting material: (in Agenda Item E6 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf</p> <p>See CAG meeting minutes (in Agenda Item C of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASB-CAG-Agenda_Item_A-Public_Minutes-final.pdf</p> <p>See report back on September 2012 CAG meeting (in Paragraph 4 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASBCAG-Agenda_Item_E-1_ISA_720-Reportback-final.pdf</p>

Appendix 2

List of Respondents to the Exposure Draft on ISA 720

#	Abbrev.	Respondent (74)	Region
Investors and Analysts (3)			
1.	ICGN	International Corporate Governance Network	GLOBAL
2.	EUMEDION	Eumedion (Dutch Institutional Investors)	EU
3.	HEOS	Hermes Equity Ownership Services	GLOBAL
Regulators and Oversight Authorities (9)			
4.	BCBS	Basel Committee on Banking Supervision	GLOBAL
5.	CPAB	Canadian Public Accountability Board	NA
6.	EAIG	European Audit Inspection Group (15 European Regulators)	EU
7.	FRC	Financial Reporting Council (UK)	EU
8.	IAIS	International Association of Insurance Supervisors	GLOBAL
9.	ICAC	Ministerio de Economía y Competitividad (Instituto de Contabilidad y Auditoría de Cuentas) [Ministry of Economics and Competitiveness (Institute of Accounting and Audit)]	EU
10.	IOSCO	International Organization of Securities Commissions	GLOBAL
11.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
12.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
Those Charged with Governance (2)			
13.	IIA	Institute of Internal Auditors	GLOBAL
14.	AICD	Australian Institute of Company Directors	AP
National Auditing Standard Setters (5)			
15.	ASB	American Institute of Certified Public Accountants' Auditing Standards Board	NA
16.	AUASB	Australian Auditing and Assurance Standards Board	AP
17.	CAASB	Canadian Auditing and Assurance Standards Board	NA
18.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
19.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Accounting Firms (12)			
20.	BDO	BDO International Limited	GLOBAL

21.	BT	Baker Tilly (UK)	EU
22.	DTT	Deloitte Touche Tohmatsu Limited	GLOBAL
23.	EYG	Ernst & Young Global Limited	GLOBAL
24.	GTI	Grant Thornton International Ltd	GLOBAL
25.	KI	Kreston International	NA
26.	KPMG	KPMG IFRG Limited (Network)	GLOBAL
27.	MNP	MNP LLP – formerly Meyers Norris Penny (Canada)	NA
28.	PP	Pitcher Partners (Australia)	AP
29.	PwC	PricewaterhouseCoopers International Limited	GLOBAL
30.	RSM	RSM International	GLOBAL
31.	WK	Westworth Kemp Consultants (Australia)	AP
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 -	EU

		Federation of European Accountants	
49.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
50.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
51.	IBRACON	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.	ICPAS	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 (Instituut 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
Academics (1)			
69.	AAA	American Accounting Association - Auditing Standards Committee of the Auditing Section	NA
Individuals and Others (5)			
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