

**The Auditor's Responsibilities Relating to Other Information in Documents
Containing or Accompanying Audited Financial Statements and the Auditor's
Report Thereon—
Proposed International Standard on Auditing 720 (Revised)**

[Clean]

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

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International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information that is included in documents within the scope of this ISA.
2. A document is within the scope of this ISA only if:
 - (a) It is a stand-alone document, or is part of the set of documents, prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor's report thereon, and it: (Ref: Para. A1–A5)
 - (i) Contains the audited financial statements and the auditor's report thereon; or (Ref: Para. A6)
 - (ii) Accompanies the audited financial statements and the auditor's report thereon and has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements or the financial reporting process; (Ref: Para. A7–A9) and
 - (b) The intended users of the document are the same as those of the audited financial statements.
3. Other information that is materially inconsistent with the audited financial statements or the auditor's understanding of the entity and its environment acquired during the course of the audit may: (Ref: Para. A10–A12)
 - (a) Undermine the credibility of the audited financial statements and the auditor's report thereon;
 - (b) Inappropriately influence the economic decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole; or (Ref: Para. A13)
 - (c) Indicate that the audited financial statements are materially misstated.
4. This ISA does not apply to:
 - (a) Preliminary announcements of financial information; and
 - (b) Securities offering documents, including prospectuses, unless such documents meet the criteria specified in paragraph 2 for documents within the scope of this ISA. (Ref: Para. A14)
5. This ISA does not impose an obligation on the auditor to express an opinion on the accuracy, reliability or completeness of the other information.
6. Law or regulation may impose obligations with respect to other information that are beyond the requirements (and are therefore outside the scope) of this ISA.

Effective Date

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

Objectives

8. The objectives of the auditor, having read and considered the other information, are to:
 - (a) Respond appropriately when the auditor identifies information that indicates that the:
 - (i) Other information may contain a material inconsistency; or
 - (ii) Audited financial statements may be materially misstated; and
 - (b) Report in accordance with this ISA.

Definition

9. For purposes of the ISAs, the following term has the meaning attributed below:

Other information – Financial and non-financial information (other than audited financial statements and the auditor's report thereon) that is included by the entity, whether by law, regulation, custom or voluntarily, in a document that is within the scope of this ISA. (Ref: Para. A15–A21)

Requirements

Obtaining the Other Information

10. The auditor shall make appropriate arrangements with management to obtain in a timely manner, and if possible prior to the date of the auditor's report, documents that are within the scope of this ISA. (Ref: Para. A22–A26)

Reading and Considering the Other Information

11. The auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit to respond appropriately when it includes information that indicates that the: (Ref: Para. A27–A41)
 - (a) Other information may contain a material inconsistency; or
 - (b) Audited financial statements may be materially misstated.

Responding When the Auditor Identifies That the Other Information May Contain a Material Inconsistency

12. If the auditor identifies that the other information may contain a material inconsistency, the auditor shall discuss the matter with management. The auditor shall perform other procedures as the auditor believes necessary to determine whether a material inconsistency does exist. (Ref: Para. A42–A45)
13. If the auditor determines that a material inconsistency does exist in the other information, the auditor shall request management to correct the other information. If management:
 - (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

14. If the other information is still not corrected, the auditor shall:
- (a) When the other information was obtained prior to the date of the auditor's report, take appropriate action, including: (Ref: Para. A46–A47)
 - (i) Considering the reporting implications (see paragraph 16(c)); or (Ref: Para. A48)
 - (ii) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation; or (Ref: A49–A50)
 - (b) When the other information was obtained after the date of the auditor's report, take appropriate action in accordance with ISA 560,¹ taking into account the auditor's legal rights and obligations. (Ref: Para. A51)

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

15. If the auditor identifies information that indicates that the audited financial statements may be materially misstated, the auditor shall perform procedures necessary under the ISAs to determine whether the audited financial statements are materially misstated and to complete the audit.

Reporting

16. Where the auditor has read and considered the other information prior to the date of the auditor's report, the auditor shall include a statement in the auditor's report comprising the following elements: (Ref: Para. A52–A53)
- (a) Identification of the specific documents that contain the other information that the auditor has read and considered as part of the audit of the financial statements; (Ref: Para. A54)
 - (b) A statement that the purpose of reading and considering the other information is to enable the auditor to respond appropriately when the auditor identifies information that indicates that the other information may contain a material inconsistency or that the audited financial statements may be materially misstated;
 - (c) A statement as to whether, based on reading and considering the other information, the auditor has any material inconsistencies to report, and, if so, a statement describing the material inconsistency.
 - (d) A statement that the auditor has not audited the other information and accordingly does not express an opinion on it.
17. When the auditor's opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statement required in paragraph 16. (Ref: Para. A55–A58)

Reporting Prescribed by Law or Regulation

18. If the auditor is required by law or regulation of a specific jurisdiction to report with respect to the other information and to use a specific layout or wording in the auditor's report for this purpose,

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

the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum: (Ref: Para. A59)

- (a) A description of the auditor's responsibilities with respect to the other information;
- (b) Identification of the documents containing the other information that the auditor has read and considered; and
- (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

- 19. When the auditor has identified a material inconsistency in the other information, the auditor shall include in the audit documentation how the auditor has addressed the inconsistency.
- 20. The auditor shall retain in the audit documentation the document on which the auditor has performed the work required under this ISA. (Ref: Para. A60)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1–6)

Documents that are within the Scope of this ISA (Ref: Para. 2(a))

- A1. The initial release of audited financial statements and the auditor's report thereon for a reporting period is when they are first made available to intended users, for example, by one or more of the following:
 - Filing the documents with regulatory authorities, a securities exchange, or an official public repository.
 - Distributing the documents directly to the intended users for the annual shareholder's meeting.
 - Publishing the documents in accordance with law or regulation.
- A2. Documents prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor's report thereon may not all be issued on the same date. For example, an entity may file some of the documents and the audited financial statements with a regulatory authority, a securities exchange or an official public repository, and subsequently distribute those documents along with additional documents (such as a Chairman's statement) to shareholders for the purposes of the annual meeting. Such additional documents are within the scope of this ISA.
- A3. There may be other circumstances where the audited financial statements and the auditor's report thereon are subsequently distributed within, or together with, documents that are not prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor's report thereon, for example, loan agreements and tender documents. Such documents are outside the scope of this ISA.

- A4. Documents within the scope of this ISA may be made available to the intended users in printed form, or electronically, including on the entity's website. A document that meets the criteria in paragraph 2 is within the scope of this ISA irrespective of the manner in which it is made available to the intended users. For example, where a document is only made available on the entity's website, the auditor's procedures under this ISA would be performed on a version of the document obtained from the entity in accordance with paragraph 10 of this ISA.
- A5. Documents within the scope of this ISA may be translated into other languages. The auditor's responsibilities under this ISA do not extend to such translated documents. However, the auditor may be required by law, regulation or terms of contract to perform work on the translated documents.

Documents Containing Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 2(a)(i))

- A6. A document containing audited financial statements and the auditor's report thereon, that is prepared and issued by the entity in connection with their initial release, is typically referred to as an annual report, although such a document may also be known by a different term.

Documents Accompanying Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 2(a)(ii))

- A7. The purposes of a document accompanying the audited financial statements and the auditor's report thereon, that is prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor's report thereon, define whether or not the document is within the scope of this ISA. Such an accompanying document is within the scope of this ISA if it has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process. Financial reporting process² refers to the process that is used to prepare an entity's financial statements. It includes matters ranging from internal control to aspects of the entity's governance practices. ISA 315 (Revised) provides further guidance on an entity's financial reporting process.³
- A8. Examples of such documents accompanying the audited financial statements and the auditor's report thereon that are within the scope of this ISA include the following:
- Management report, or operating and financial review or similar reports by those charged with governance (for example, directors' report)
 - Chairman's statement
 - Corporate governance statement
 - Internal control and risk assessment reports
- A9. Accompanying documents that are outside the scope of this ISA are those that do not have a primary purpose of providing commentary to enhance the intended users' understanding of the

² As used in the context of the ISAs

³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs A81-A83

audited financial statements or the financial reporting process. Examples include separate documents prepared and issued by the entity, such as:

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

However, if any information of this nature is included in a document that is within the scope of this ISA, it would also be subject to the requirement of paragraph 11 for the auditor to read and consider it.

Material Inconsistencies (Ref: Para. 3)

A10. Other information may be inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit, including the audited financial statements, when it:

- (a) Contains information that appears to be incorrect, unreasonable or inappropriate based on the auditor's understanding of the entity and its environment acquired during the course of the audit; or
- (b) Is presented in a way that appears to omit or obscure information that the auditor considers is necessary to properly understand the matter being addressed in the other information.

Other information that the auditor concludes is materially false or misleading⁴ is by its nature materially inconsistent.

A11. Inconsistencies identified by the auditor in the other information may range from those that the auditor considers are clearly trivial to those that the auditor considers are material inconsistencies. An inconsistency is material if it could reasonably be expected to influence the economic decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole.

A12. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor determines that the other information contains assertions that are inconsistent with the auditor's understanding

⁴ The International Ethics Standards Board for Professional Accountants' (IESBA) *Code of Ethics for Professional Accountants* (IESBA Code), Section 110.2, requires a professional accountant not to be knowingly associated with reports, returns, communications or other information where the professional accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished recklessly; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

of the entity and its environment acquired during the course of the audit. Such inconsistencies may raise doubt about the audited financial statements or the other information.

Considerations Specific to Public Sector Entities (Ref: Para. 3(b))

A13. In the public sector, the intended users may make non-economic decisions based on the other information. Such decisions could be political decisions that impact on the entity such as deciding on new laws and regulations. An inconsistency may therefore be material in the public sector if it could reasonably be expected to influence such non-economic decisions taken on the basis of the audited financial statements and the other information as a whole.

Securities Offering Documents (Ref: Para. 4(b))

A14. Securities offering documents, including prospectuses, are often subject to specific requirements contained in, for example, listing rules and securities statutes. These requirements may often include reporting requirements beyond those for an audit of financial statements. The fact that a document is a securities offering document does not preclude it from being in the scope of this ISA if this document is the initial release, or is prepared and issued by the entity in connection with the initial release, of the audited financial statements and the auditor's report thereon for a reporting period, and it meets all the other criteria specified in paragraph 2 for documents that are within the scope of this ISA.

Definition

Types of Other Information Within the Scope of this ISA (Ref: Para. 9)

A15. Other information in a document that is within the scope of this ISA may be financial or non-financial in nature and may be historical or prospective. Examples of other information include the following:

Financial

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

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

Non-Financial

- Operating data such as production in units, quantities of raw materials used, or energy consumption by quarter.
- Names and profiles of officers and directors.
- Employment data.
- Governance statements.
- Sustainability and corporate social responsibility information (such as environmental, labor practices and working conditions, and product responsibility information).
- Statements of internal control.
- Non-financial “key performance indicators” (or, in the public sector, details about the entity’s outputs and outcomes – see paragraph A21).

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

A17. Financial information in the other information may be quantitative or qualitative in nature, and may be:

- (a) The same as, or a part of, specific elements, accounts or items in the financial statements; or
- (b) Not the same as, and not a part of, specific elements, accounts or items in the financial statements but intended to provide:
 - (i) Further analysis of, or explain, aspects of the entity’s financial position, financial performance, or cash flows, including through highlighting relationships between specific items in the financial statements; or
 - (ii) Context when describing management’s assessment of the entity’s future financial prospects.

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

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

- A18. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the audited financial statements.⁷ As such disclosures are required by the applicable financial reporting framework, they form part of the audited financial statements. Accordingly, they do not constitute other information for the purpose of this ISA.
- A19. Unaudited supplementary information that is presented with, and clearly differentiated from, the audited financial statements is dealt with in ISA 700.⁸ As explained in ISA 700,⁹ such information falls within the definition of other information and is therefore within the scope of this ISA.
- A20. eXtensible Business Reporting Language (XBRL) tagged data do not represent other information as defined in this ISA.

Considerations Specific to Public Sector Entities

- A21. In the public sector, examples of other information include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program review and other reports by management about the entity's achievements over the reporting period, such as:
- Number of supervisions performed.
 - Number of complaints handled.
 - Number of students who have graduated.

Obtaining the Other Information (Ref: Para. 10)

Obtaining the Documents Within the Scope of this ISA

- A22. Making the appropriate arrangements involves obtaining from management the version of each document that the entity intends to issue, regardless of whether the document will be issued in printed form or electronically. Such version may, for example, be one that has been approved by those charged with governance for issuance.

Availability of Other Information

- A23. The auditor may communicate with management:
- The auditor's expectations in relation to obtaining the other information in a timely manner prior to the date of the auditor's report, or if it is not possible, as soon as practicable and in any case prior to issuance of such information; and
 - The possible implications when it is obtained after the date of the auditor's report, including actions the auditor may need to take in accordance with ISA 560.¹⁰

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

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

⁹ ISA 700, paragraph A51

A24. Such communications may be appropriate for example:

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

The Auditor's Expectations in Relation to Obtaining the Other Information

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

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

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

Reading and Considering the Other Information in Light of the Auditor's Understanding

A27. The auditor's understanding of the entity and its environment acquired during the course of the audit forms the basis for the auditor's consideration of the other information as required in this ISA. ISA 315 (Revised)¹² sets out matters relating to the entity and its environment, including the entity's internal control, for which the auditor is required to obtain an understanding for the purpose of the audit. Such matters include the following:

- (a) The relevant industry, regulatory, and other external factors;
- (b) The nature of the entity;
- (c) The entity's selection and application of accounting policies;
- (d) The entity's objectives and strategies;
- (e) The measurement and review of the entity's financial performance; and
- (f) The entity's internal control.

A28. The auditor's understanding of the entity and its environment acquired during the course of the audit also encompasses understanding of matters that may be prospective in nature. These matters may include, for example, business prospects and future cash flows that the auditor

¹⁰ ISA 560, paragraphs 10-17

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

¹² ISA 315 (Revised), paragraphs 11-12

considered when performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.

- A29. The auditor is required by ISA 200¹³ to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of their plans or may be overly focused on seeking to convince readers of the merits of their point of view rather than providing a balanced analysis. Therefore, circumstances may exist that raise doubt about the audited financial statements and the other information, and possibly about management's competence or ethical values, or about their commitment to such values.
- A30. Reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit involves:
- (a) Being alert to information that may be inconsistent with the audited financial statements;
 - (b) Being alert to information that may be inconsistent with the auditor's general understanding of the entity and its environment based on the audit; and
 - (c) Considering, when deemed necessary, the other information in light of the auditor's more detailed understanding of the entity and its environment as may be recorded in the audit documentation.
- A31. A document that is within the scope of this ISA may include other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. In meeting the requirements of this ISA, the auditor is not required to seek to enhance the auditor's understanding of the entity and its environment beyond that required for purposes of the audit.

Responsibility for Reading and Considering Other Information

- A32. In accordance with ISA 220,¹⁴ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, this requirement involves the engagement partner identifying the appropriate individuals on the engagement team, including the engagement partner, to be assigned tasks relating to reading and considering the other information. Factors to consider include:
- The relative experience of engagement team members.
 - Whether the individuals to be assigned the tasks have the relevant understanding to consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit.
 - The degree of judgment involved in reading and considering the other information. For example, when consideration of the other information involves a lower degree of judgment,

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

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

such as agreeing quantitative information to corresponding information in the audited financial statements, such a task may be carried out by less experienced members of the engagement team.

A33. In the case of a group audit, the group engagement partner may determine it necessary to engage the assistance of a component auditor in considering the other information related to that component.

Considering the Other Information to Respond Appropriately When it Includes Information That Indicates that the Other Information May Contain a Material Inconsistency

A34. Various factors assist the auditor in exercising professional judgment while reading the other information to determine which parts of the other information merit further consideration. Such factors include:

- The significance¹⁵ of the other information in the context in which it is presented, for example:
 - The importance that users would attach to the other information for their economic decisions, having regard to the nature of the entity and its business, and the extent to which the information supports explanations of key aspects of the entity's financial position, financial performance and cash flows.
 - If quantitative, the relative size of the amount compared with the elements, accounts or items in the audited financial statements or the other information to which they relate.
 - The sensitivity of the information, for example, stock option compensation for senior management.
- Whether the auditor believes there may be a material inconsistency between the other information and the auditor's understanding of the entity and its environment acquired during the course of the audit.
- Whether the other information contains information of which the auditor was not previously aware but that the auditor would have expected to have known about during the audit.
- Whether the other information is closely related to:
 - The audited financial statements, for example, analyses of movements in specific provisions included in the financial statements, or more detailed breakdowns of items in the financial statements such as derivative instruments or guarantees; or
 - The auditor's understanding of the entity and its environment acquired during the course of the audit – for example, the entity's business model and strategy and related business risks may be more closely related; by contrast, operating data not obtained from the entity's accounting system such as the volume of recycled materials or customer satisfaction feedback, may be less closely related.

¹⁵ As defined in the Glossary of Terms

A35. The nature of the auditor's procedures in considering other information depends on the nature of the information. These procedures may include:

- For quantitative financial information that is intended to be the same as information in the audited financial statements, agreeing the financial information to the financial statements.
- For qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements, considering the significance of any differences in wording used and whether such differences imply different meanings.
- For directly reconcilable financial information (see paragraphs A36-A38), obtaining a reconciliation from management and:
 - Agreeing items in the reconciliation to the audited financial statements; and
 - Determining whether the calculations within the reconciliation are arithmetically accurate.
- For the remaining other information, whether financial or non-financial, considering such information for potential inconsistencies with the auditor's understanding of the entity and its environment acquired during the course of the audit (see paragraphs A39–A41).

Directly Reconcilable Financial Information

A36. Directly reconcilable financial information is quantitative financial information and is supportable by a management reconciliation, all the items within which can be agreed to specific elements, accounts or items in the financial statements.

A37. Directly reconcilable financial information may include, for example:

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

A38. Financial information that is not directly reconcilable may include, for example, market data, such as trends in interest or foreign exchange rates, or commodity prices at specific points in time.

Remaining Other Information

A39. It is not expected that the auditor will have an understanding of all the other information. However, when considering the remaining other information, the auditor may identify for further consideration those items about which the auditor expects to have relevant understanding obtained during the course of the audit.

A40. The nature of the procedures that the auditor may perform on such information will vary depending on:

- The nature of the other information, for example, whether it is:
 - Quantitative or qualitative.
 - Financial or non-financial.

- Objective or subjective.
- Whether the auditor has an expectation that relevant aspects of the auditor's understanding related to the other information may be recorded in the audit documentation or possessed by a component auditor.

A41. The procedures the auditor may perform include:

- In the case of other quantitative financial information, obtaining from management an analysis of the financial information and:
 - Agreeing significant items within the analysis to the audit documentation or other appropriate sources.
 - Determining whether the calculations within the analysis are arithmetically accurate.

For example, when considering management's description of the currency effect on growth in revenue, the auditor may obtain management's reconciliation of the currency effect to the underlying accounting records and agree significant items within the analysis to the audit documentation or other appropriate sources.

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

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

Responding When the Auditor Identifies That the Other Information May Contain a Material Inconsistency

Other Information That May Contain a Material Inconsistency (Ref: Para. 12)

- A42. The auditor's discussion with management may include requesting management to provide support for the basis of management's assertions in the other information. Based on management's further information or explanations, the auditor may judge that there is no material inconsistency. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.
- A43. Conversely, the discussion with management may provide further information that reinforces the auditor's belief that a material inconsistency may exist.
- A44. The nature and extent of other procedures the auditor may perform to determine whether a material inconsistency does exist are a matter of the auditor's professional judgment in the circumstances.
- A45. In certain circumstances, the auditor may not be able to assess management's responses to the auditor's inquiries and, accordingly, the validity of management's assertion in the other information. In these circumstances, the auditor may consider other procedures such as requesting management to consult with a qualified third party such as a management expert or legal counsel.

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

A46. The actions the auditor takes if the other information is still not corrected depend on a number of factors, including:

- The extent to which a material inconsistency could reasonably be expected to influence the economic decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole.
- The auditor's understanding of the rationale given by management and those charged with governance for not making the correction. Such rationale may, for example, raise doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead.

A47. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to the regulator or relevant professional body.

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

A48. In rare circumstances, a disclaimer of opinion may be appropriate when the refusal to correct the material inconsistency in the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

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

A49. Withdrawal from the engagement may be appropriate when the circumstances surrounding the refusal to correct the material inconsistency in the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit and therefore audit evidence obtained in support of the audit opinion on the financial statements.

Considerations specific to public sector entities

A50. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter.

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

A51. The actions the auditor may take, with a view to bringing the material inconsistency to the attention of the intended users or appropriate public authorities, depend upon the auditor's legal rights and obligations. For example, in some cases the auditor may be required by law, regulation or other professional standards to communicate the matter to the regulator or relevant professional body, or through other public disclosures. The auditor may consider it appropriate to seek legal advice.

Reporting

Illustrative Statements (Ref: Para. 16)

Illustrative Statement When There is No Material Inconsistency to Report

- A52. The following is an example of the statement that would be included in the auditor's report when the auditor has no material inconsistency to report:

As part of our audit, we have read and considered in light of our understanding of the entity and its environment acquired during our audit [*specify the document containing the other information, e.g., the entity's annual report for the year ended December 31, 20X1*] containing [*clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.*] ("Other Information"). This was for the purpose of responding appropriately when there is an indication that the Other Information may contain a material inconsistency or that the audited financial statements may be materially misstated. Based upon reading and considering the Other Information, we have not identified material inconsistencies between the Other Information and our understanding of the entity and its environment acquired during our audit, including the audited financial statements. However, we have not audited the Other Information and accordingly do not express an opinion on it.

Illustrative Statement When There is a Material Inconsistency to Report

- A53. The following is an example of the statement that would be included in the auditor's report when the auditor has a material inconsistency to report and withdrawal from the engagement is not necessary or possible in the circumstances:

As part of our audit, we have read and considered in light of our understanding of the entity and its environment acquired during our audit [*specify the document containing the other information, e.g., the entity's annual report for the year ended December 31, 20X1*] containing [*clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.*] ("Other Information"). This was for the purpose of responding appropriately when there is an indication that the Other Information may contain a material inconsistency or that the audited financial statements may be materially misstated. Based upon reading and considering the Other Information, we have noted a material inconsistency in the Other Information compared with our understanding of [*specify subject matter against which the Other Information was compared, e.g., the entity's financial performance for the year*]. Specifically, [*describe the material inconsistency*]. However, we have not audited the Other Information and accordingly do not express an opinion on it.

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

- A54. The fact that other information was not available at the date of the auditor's report does not obviate the need for the auditor to read and consider it in light of the auditor's understanding of the entity and its environment acquired during the course of the audit if such other information subsequently becomes available and is included in a document that is within the scope of this ISA. However, the other information will not be identified in the auditor's report as it was not

available at the time the auditor's report was dated, and, unless required by law or regulation, the auditor's report will not be updated or re-issued to refer to such other information.

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

A55. A modification of the auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 16 if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this ISA. In other circumstances, there may be implications for such reporting as described in paragraphs A56–A58.

Qualified Opinion Due to Disagreement with Management

A56. While the other information may be consistent with the financial statements, the auditor may conclude that it is materially inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit because of the matter for which the auditor has qualified the auditor's opinion. In these circumstances, the auditor may need to modify the statement required by paragraph 16(c) to state that, based on reading and considering the other information, except for management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph in the auditor's report, the auditor has not identified material inconsistencies between the other information and the auditor's understanding of the entity and its environment acquired during the course of the audit.

Qualified Opinion Due to Limitation of Scope

A57. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether management's description of the matter in the other information is materially inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit. Accordingly, the auditor may need to modify the statement required by paragraph 16(c) to state that, based on reading and considering the other information, except for the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph in the auditor's report, the auditor has not identified material inconsistencies between the other information and the auditor's understanding of the entity and its environment acquired during the course of the audit.

Adverse Opinion or Disclaimer of Opinion

A58. An adverse opinion or a disclaimer of opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion or Basis for Disclaimer of Opinion paragraph

does not justify the omission of reporting of material inconsistencies between the other information and the auditor's understanding of the entity and its environment acquired during the course of the audit. In these circumstances, the auditor may need to appropriately modify the statement required by paragraph 16(c).

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

A59. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs.¹⁶ Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this ISA. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this ISA relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 18 is included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this ISA, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

Documentation (Ref: Para. 20)

A60. Retaining in the audit documentation a copy of the document on which the auditor has performed work under this ISA assists with version control should the document be subsequently amended by the entity.

¹⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A55.

Appendix

(Ref: Para. A17)

Examples of Quantitative and Qualitative Financial Information

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

Quantitative Financial Information

Quantitative Financial Information That is the Same as, or a Part of, Specific Elements, Accounts or Items in the Financial Statements

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data such as income from continuing operations by major operating area, or sales by geographical segment or product line
- Special items such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.

Quantitative Financial Information That is Not the Same as, and Not a Part of, Specific Elements, Accounts or Items in the Financial Statements

- Financial measures or ratios such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.
- Tables of interest or foreign exchange rates over the past period, or graphs showing trends in such data over a given period.
- Prices of specific commodities at given points in time, or graphs showing trends in such prices over a given period.

Qualitative Financial Information

Qualitative Financial Information That is the Same as, or a Part of, Qualitative Disclosures in the Financial Statements

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.

- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.

Qualitative Financial Information That is Not the Same as, and Not a Part of, Qualitative Disclosures in the Financial Statements

- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.
- A summary of significant operating developments by country in which the entity operates.