

COMPARISON OF KEY ELEMENTS OF PROPOSED ISA 720 (REVISED) SINCE SEPTEMBER 2013 CAG DISCUSSION

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>Objectives</p> <p>8. The objectives of the auditor, having read the other information based on the auditor's understanding of the entity and its environment acquired during the course of the audit, are to:</p> <p style="padding-left: 20px;">(a) Respond appropriately when the auditor identifies that there may be:</p> <p style="padding-left: 40px;">(i) A material misstatement in the audited financial statements; or</p> <p style="padding-left: 40px;">(ii) A material misstatement of fact in the other information; and</p> <p style="padding-left: 20px;">(b) Report in accordance with this ISA.</p> <p>8A. This ISA also assists the auditor in complying with relevant ethical requirements¹ that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement furnished recklessly, or omits or obscures necessary information such that the other information is misleading.</p>	<p>Objectives</p> <p>9. The objectives of the auditor, having read the other information, are:</p> <p style="padding-left: 20px;">(a) To consider, through performing limited procedures, whether there is an apparent material inconsistency between the other information and the financial statements, because such an inconsistency may undermine the credibility of the financial statements and the auditor's report thereon;</p> <p style="padding-left: 20px;">(b) To consider whether there is an apparent material inconsistency between the other information and the auditor's knowledge gained during the course of the audit;</p> <p style="padding-left: 20px;">(c) To respond appropriately when the auditor identifies such apparent material inconsistencies, or when the auditor becomes aware that other information is apparently materially incorrectly stated or is otherwise misleading; and</p> <p style="padding-left: 20px;">(d) To report in accordance with this ISA.</p>

¹ See paragraph 110.2 of the International Ethical Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code).

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>Definitions</p> <p>9. For purposes of the ISAs, the following terms have the meanings attributed below:</p> <p>(aa) 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). (Ref: Para. A1A–A1C)</p> <p>(a) Misstatement of Fact – A misstatement of fact exists 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). The materiality of a misstatement of fact is judged in light of its significance, in the context of the audited financial statements and the other information taken as a whole. (Ref: Para. A1C)</p>	<p>Definitions</p> <p>10. For purposes of the ISAs, the following terms have the meanings attributed below:</p> <p>(a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and typically includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. The content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions. (Ref: Para. A1–A4)</p> <p>(b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (for example, because it omits or obscures information necessary for a proper understanding of a matter). Misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users. (Ref: Para. A5)</p>

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>(c) Other information – Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in</p> <ul style="list-style-type: none"> (i) An annual report that contains the financial statements and the auditor’s report thereon; and (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. (Ref: Para. A7–A9–A21) 	<p>(c) Other information – Financial and non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A6–A9)</p>
<p>Requirements Obtaining the Other Information</p> <p>10. The auditor shall:</p> <ul style="list-style-type: none"> (a) Discuss with management the nature and timing of the annual report, and other documents that contain information similar to that typically contained in an annual report, and determine which of these other documents are within the scope of this ISA.; and (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s report, the final version of the documents that are within the scope of this ISA. (Ref: Para. A22–A27A) 	<p>Requirements Obtaining the Other Information</p> <p>11. The auditor shall:</p> <ul style="list-style-type: none"> (a) Determine, through discussion with management, which document(s) comprises the annual report and the planned timing of the entity’s issuance of such documents; and (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s report, the final version of the other information. (Ref: Para. A10–A20)

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>Reading the Other Information</p> <p>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:</p> <p>(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</p> <p>(b) A material misstatement of fact in the other information. (Ref: Para. A28–A43, A49)</p> <p>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)</p>	<p>Reading and Considering the Other Information</p> <p>12. The auditor shall read the other information and shall: (Ref: Para. A21–A22)</p> <p>(a) Consider whether there is an apparent material inconsistency between the other information and the financial statements; (Ref: Para. A23–A27)</p> <p>(b) Consider whether there is an apparent material inconsistency between the other information and the auditor’s knowledge gained during the course of the audit; and (Ref: Para. A28–A33)</p> <p>(c) Remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. (Ref: Para. A34–A35)</p> <p>13. In fulfilling the requirement in paragraph 12(a), the auditor shall perform limited procedures to evaluate the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements.</p>
<p>Responding to a Possible Inconsistency between the Other Information and the Audited Financial Statements [Relocated from paragraph 15]</p> <p>11B. If the auditor identifies that there may be 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, the auditor shall perform procedures</p>	<p>Responding to an Apparent Material Inconsistency or Other Information that is Apparently Materially Incorrectly Stated or Otherwise Misleading</p> <p>14. If the auditor identifies an apparent material inconsistency (or becomes aware of other information that is apparently materially incorrectly stated or otherwise misleading), the auditor shall discuss the matter with management and, if necessary, perform other</p>

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>necessary under the ISAs to determine whether the audited financial statements are materially misstated. (Ref: Para. A49, A55)</p> <p>Responding to a Possible Material Misstatement of Fact in the Other Information</p> <p>12. If, the auditor identifies that there may be a material misstatement of fact in the other information, the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether a material misstatement of fact in the other information does exist. (Ref: Para. A44–A48)</p> <p>13. If the auditor determines that a material misstatement of fact in the other information does exist, the auditor shall request management to correct the other information. If management:</p> <p>(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or</p> <p>(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.</p> <p>14. If the other information is not corrected after communicating with those charged with governance, the auditor shall:</p> <p>(a) When the other information was obtained prior to the date of the auditor’s report, take appropriate action, including: (Ref: Para. A49–A51)</p> <p>(i) Considering the reporting implications (see paragraph 16(c)); or (Ref: Para. A52)</p> <p>(ii) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation; or (Ref: Para. A53–A54)</p> <p>(b) When the other information was obtained after the date of the</p>	<p>procedures to determine whether: (Ref: Para. A36–A40, A48)</p> <p>(a) A material misstatement of other information exists;</p> <p>(b) A material misstatement in the financial statements exists; or</p> <p>(c) The auditor’s understanding of the entity and its environment needs to be updated.</p> <p><i>Responding When the Auditor Determines That a Material Misstatement of Other Information Exists</i></p> <p>15. If the auditor determines that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:</p> <p>(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or</p> <p>(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.</p> <p>16. If the other information was obtained prior to the date of the auditor’s report and is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A41)</p> <p>(a) Considering the implications for the auditor’s report (see paragraph 19(c)(ii)); or (Ref: Para. A42)</p> <p>(b) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation. (Ref: Para. A43–A44)</p> <p>17. If the other information was obtained after the date of the auditor’s report, the auditor shall: (Ref: Para. A41)</p> <p>(a) Carry out the procedures necessary under the circumstances</p>

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>auditor’s report, take appropriate action in accordance with ISA 560,² taking into account the auditor’s legal rights and obligations. (Ref: Para. A55–A56, A59–A59B)</p>	<p>if management agrees to correct the other information; or (Ref: Para. A45)</p> <p>(b) Take appropriate action, taking into account the auditor’s legal rights and obligations, if the other information is not corrected after communicating with management and those charged with governance. (Ref: Para. A46–A47)</p> <p><i>Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to be Updated</i></p> <p>18. If, as a result of performing the procedures in paragraphs 12–14, the auditor identifies that there is a material misstatement in the financial statements or the auditor’s understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with other ISAs. (Ref: Para. A48)</p>
<p>Reporting</p> <p>16. When the auditor has obtained all or part of the other information prior to the date of the auditor’s report, the auditor shall include a statement in the auditor’s report comprising the following elements: (Ref: Para. A57–A58)</p> <p>(a) A description of the auditor’s responsibilities with respect to the other information;</p> <p>(b) Identification of the other information read by the auditor before the date of the auditor’s report; (Ref: Para. A59)</p> <p>(c) If:</p>	<p>Reporting</p> <p>19. When the auditor has obtained all or part of 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. A49)</p> <p>(a) Identification of the other information obtained by the auditor before the date of the auditor’s report;</p> <p>(b) A description of the auditor’s responsibilities with respect to the other information.;</p> <p>(c) A statement:</p>

² ISA 560, *Subsequent Events*, paragraphs 10–17

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>(i) The auditor has identified a material misstatement of fact in the other information that has not been corrected, a statement that, as a result of reading the other information, based on the auditor’s understanding of the entity and its environment acquired during the course of the audit, , the auditor has determined that a material misstatement of fact exists in the other information and has not been corrected, and a statement describing the material misstatement of fact; or</p> <p>(ii) The auditor has not identified a material misstatement of fact in the other information that has not been corrected, a statement that the auditor has nothing to report.</p> <p>(d) A statement that the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it.</p> <p>17. When the auditor’s opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statement required in paragraph 16(c). (Ref: Para. A60–A63A)</p>	<p>(i) If the auditor has not identified a material misstatement in the other information, that the auditor has nothing to report; or</p> <p>(ii) If the auditor has identified a material misstatement in the other information, that describes the material misstatement. (Ref: Para. A50)</p> <p>(d) A statement that the auditor has not audited or reviewed the other information and accordingly does not express any form of assurance conclusion on it.</p> <p>20. 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 19(c)(ii). (Ref: Para. A51–A55)</p> <p>21. When the auditor has identified an uncorrected material misstatement of the other information and the auditor expects to modify the statement in the auditor’s report (see paragraph 19(c)(ii)), the auditor shall communicate with those charged with governance the proposed wording of the statement.</p>
<p><i>Reporting Prescribed by Law or Regulation</i></p> <p>18. If the auditor is required by law or regulation of a specific jurisdiction to report with respect to the other information and to use a specific layout or wording in the auditor’s report for this purpose, the auditor’s report shall refer to International Standards on Auditing only if the auditor’s report includes, at a minimum: (Ref: Para. A64)</p> <p>(a) A description of the auditor’s responsibilities with respect to the other information;</p>	<p><i>Reporting Prescribed by Law or Regulation</i></p> <p>22. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor’s report using a specific layout or wording, the, the auditor’s report shall refer to International Standards on Auditing only if the auditor’s report includes, at a minimum: (Ref: Para. A56)</p> <p>(a) A description of the auditor’s responsibilities with respect to the other information;</p> <p>(b) An identification of the documents containing the other information obtained by the auditor before the date of the auditor’s report; and</p>

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<p>(b) Identification of the documents containing the other information that the auditor has read; and</p> <p>(c) An explicit statement addressing the outcome of the auditor’s work for this purpose.</p>	<p>(c) An explicit statement addressing the outcome of the auditor’s work for this purpose.</p>
<p>Documentation</p> <p>19. [Relocated from paragraph 20]The auditor shall retain in the audit documentation the document(s) on which the auditor has performed the work required under this ISA. When applicable, the audit documentation shall include how the auditor has addressed the material misstatement of fact. (Ref: Para. A65).</p>	<p>Documentation</p> <p>23. The auditor shall retain in the audit documentation the final version of the other information on which the auditor has performed the work required under this ISA. (Ref: Para. A57)</p>
<p>Reporting</p> <p><i>Illustrative Statements</i> (Ref: Para. 16)</p> <p>Illustrative Statement When the Auditor Has Not Identified Material Inconsistencies in the Other Information</p> <p>A57. The following is an example of a statement in the auditor’s report when the auditor has received other information by the date of the auditor’s report and has not identified a material misstatement of fact, or has identified a material misstatement of fact which has been corrected, in the other information:</p> <p style="padding-left: 40px;"><u>Other Information</u></p> <p style="padding-left: 40px;">As part of our audit, we have read the following [document(s)/other information] available at the date of our auditor’s report:</p>	<p>Reporting</p> <p>1. <i>Illustrative Statements</i> (Ref: Para. 19)</p> <p>Illustrative Statement When the Auditor Has Received All or Part of the Other Information by the Date of the Auditor’s Report and Has Not Identified a Material Misstatement of the Other Information</p> <p>2. A49. The following is an example of a statement in the auditor’s report when the auditor has received all or part of the other information by the date of the auditor’s report and has not identified a material misstatement of the other information, or has identified a material misstatement of the other information which has been corrected:</p> <p style="padding-left: 40px;"><u>Other Information [or another title if appropriate such as “Information other than the financial statements and</u></p>

Version Presented to the September 2013 IAASB CAG Meeting	Version Presented to the March 2014 IAASB CAG Meeting
<ul style="list-style-type: none"> [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] <p>We have a responsibility to read this [document(s)/other information]³ 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].</p> <p>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.</p> <p>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.</p>	<p><u>auditor’s report thereon”]</u></p> <p>The annual report⁴ contains the financial statements, this auditor’s report thereon, and other information.⁵</p> <p>Our responsibility is to read the other information and to perform certain limited procedures to consider whether there is an apparent material inconsistency between the other information and the financial statements. In reading the other information, we also consider whether there is an apparent material inconsistency with our knowledge gained during the course of the audit and remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. If we determine that the other information is materially misstated we are required to report that fact. We have nothing to report in this regard.</p> <p>However, we have not audited or reviewed the other information and accordingly do not express an audit opinion, review conclusion, or any form of assurance conclusion on it.</p>

³ 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.

⁴ Use another term if appropriate.

⁵ A more specific description of the other information, such as “the management report and chair’s statement,” may be used to identify the other information.

