

ISA 720—Other Information—Issues and IAASB Task Force Recommendations

Objectives of Agenda Item

1. The objective of this Agenda Item is to provide a summary of responses to the April 2014 Exposure Draft of proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* (ED-720 (2014)) and to seek Representatives' and Observers' views on the Task Force's recommendations.

Outline of Responses Received

2. The comment period for ED-720 (2014) closed on July 18, 2014 and sixty-nine (69) comment letters were received. A detailed respondent list is included in Appendix 1, and all responses can be accessed from the IAASB's website at www.ifac.org/publications-resources/international-standard-auditing-720-revised-auditor-s-responsibilities-relati.
3. Comment letters were received from the following stakeholder groups:

| Stakeholder Group | Number | Percentage |
|--|-----------|-------------|
| Regulators and Oversight Authorities | 9 | 13% |
| Those Charged with Governance (TCWG) | 1 | 1% |
| National Auditing Standard Setters (NSS) | 10 | 14% |
| Accounting Firms | 11 | 16% |
| Public Sector Organizations | 9 | 13% |
| Preparers of Financial Statements | 2 | 3% |
| Member Bodies and Other Professional Organizations | 25 | 37% |
| Individuals and Others | 2 | 3% |
| Total | 69 | 100% |

4. The geographic coverage of responses is shown below:

| Geographic Region | Number | Percentage |
|-------------------------------------|--------|------------|
| Organizations with a Global Mandate | 15 | 22% |
| Asia Pacific | 11 | 16% |
| Europe | 19 | 27% |
| Middle East/Africa | 7 | 10% |
| North America | 13 | 19% |

| | | |
|---------------|-----------|-------------|
| South America | 4 | 6% |
| Total | 69 | 100% |

Overall Comments Received

5. Overall, respondents supported the IAASB's proposals in ED-720 (2014). In comparison with the 2012 Exposure Draft¹ (ED-720 (2012)), all stakeholder groups were more supportive of both the IAASB's intentions and the manner in which those intentions had been expressed in the ED. Respondents from a variety of stakeholder groups, including Monitoring Group respondents, noted that the proposals in ED-720 (2014) were clearer, more easily understandable, and were better able to be consistently interpreted in practice.
6. For example, one Monitoring Group respondent noted that *"we believe that these proposed changes should result in an ISA 720 that is capable of consistent interpretation, application and enforcement."*² A firm respondent highlighted that *"we commend the IAASB for listening to the significant concerns that we and other respondents expressed with respect to the clarity and practicability of the 2012 proposals and for making substantive changes in response."*³
7. While acknowledging that ED-720 (2014) contained clearer proposals than ED-720 (2012), respondents nevertheless saw areas of the proposed ISA that could be improved either by further clarifying the requirements or by providing additional application material to set the context for the requirements.
8. In particular, Monitoring Group respondents⁴ expressed overall support for the proposals in ED-720 (2014) but provided suggestions for improvements in specific areas. Broadly speaking, these suggestions were to improve the specificity of certain work effort requirements, improve transparency in relation to other information obtained after the date of the auditor's report, add guidance to improve the consistent application of the ISA, and to clarify the documentation requirements.

Areas of Focus

9. In light of these overall comments, the Task Force has determined that the more significant areas of concern should be discussed by the IAASB and the IAASB Consultative Advisory Group (CAG) at their respective September 2014 meetings. These areas are:
 - The work effort requirements, specifically the requirement to remain alert for other indications that the other information is materially misstated and, to a lesser extent, the requirement to perform limited procedures (see **Section A** below);

¹ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, issued in November 2012

² *Regulators and Oversight Bodies*: BCBS

³ *Accounting Firms*: PWC

⁴ *Regulators and Oversight Bodies*: BCBS, IAIS, IFIAR, IOSCO

- The definition of a misstatement of the other information, and particularly the way the concept of materiality is addressed in this context (see **Section B** below); and
 - The IAASB's proposal, consistent with extant ISA 720, to require the auditor to continue to read and consider other information obtained after the date of the auditor's report, but to neither identify such other information nor to provide a description of the actions the auditor is required to take with respect to such other information (see **Section C** below).
10. In addition to providing a range of drafting suggestions throughout the proposed ISA, respondents' comments also pointed to a range of less significant issues that may nevertheless warrant further consideration and reflection prior to finalization of the ISA. Looking forward, the Task Force believes that the necessary changes to respond to these suggestions can be appropriately addressed via discussions with the IAASB at an additional Board teleconference to be confirmed in October 2014 and at the planned December 2014 physical meeting, and with the IAASB CAG via a teleconference to be scheduled in Q4 2014. These matters include:
- The scope of the proposed ISA and the definition of an "annual report" – While there was broad support for the focus on annual reports, there were some suggestions for improvements to the definition of an annual report and calls for specific inclusions and exclusions from the scope of the proposed ISA.
 - The illustrative statement in the auditor's report addressing other information – There was broad support for the illustrative statement, however, there were various suggestions to improve its clarity.
 - The documentation requirements – Questions were raised particularly about the implications of the other information obtained after the date of the auditor's report.
 - The objectives of the proposed ISA – Consideration is needed specifically as to whether these objectives could or should be framed in terms of the outcomes to be achieved.
11. For the remainder of this paper, and when considered necessary to provide context to the magnitude of responses, the following descriptive terms have been used:
- A few respondents = 2-3;
 - Some respondents = 4-6;
 - Several respondents = 7-11;
 - Many respondents = 12-34; and
 - A majority of respondents = 35 or more.

Significant Issues and Task Force Recommendations

A. Work Effort Requirements

Background and Respondents' Comments

12. ED-720 (2014) proposed a three-part work effort on the other information, with mandatory procedures to evaluate the consistency between the other information and the financial statements, as follows:

Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall:
(Ref: Para. A20–A21)
- (a) Consider whether there is a material inconsistency between the other information and the financial statements; (Ref: Para. A22–A26)
 - (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit; and (Ref: Para. A27–A32)
 - (c) Remain alert for other indications that the other information appears to be materially misstated. (Ref: Para. A33)
15. As the basis for the consideration in paragraph 14(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. (Ref: Para. A22–A26)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware of other information that appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether: (Ref: Para. A34–A38)
- (a) A material misstatement of the other information exists;
 - (b) A material misstatement in the financial statements exists; or
 - (c) The auditor's understanding of the entity and its environment needs to be updated.

Overall Comments on the Work Effort Requirements

13. In response to the questions posed in Explanatory Memorandum (EM) for ED-720 (2014), many⁵ respondents, including a Monitoring Group respondent, were supportive of the

⁵ *Regulators and Oversight Authorities:* BCBS; NSS: AUASB, CAASB, CNCC/CSOEC, NBA; *Accounting Firms:* BDO, CH, DTT, EYG, GTI, KPMG, MNP, PWC, RSM, UAB; *Public Sector Organizations:* AGC, AGSA, CIPFA, GAO, INTOSAI, PAS, UKNAO; *Preparers of Financial Statements:* HQ; *Member Bodies and Other Professional*

proposed work effort and noted that the proposals were an improvement over ED-720 (2012).

14. By contrast, several respondents criticized aspects of the overall expression of the auditor's work effort. In summary, these criticisms (including those from a Monitoring Group respondent) included that the term "consider" is imprecise⁶ and difficult to translate⁷ and that the work effort is too judgmental⁸ or should be framed in terms of outcomes.⁹ A few respondents were of the view that the phrase "appears to exist"¹⁰ or "apparent"¹¹ should be used throughout the work effort requirements. Finally, there were requests for further explanation of aspects of the work effort, including the phrase "material inconsistency."¹²

Comments on Specific Work Effort Requirements

15. Few comments were received on paragraph 14(a) of ED-720 (2014) specifically. The addition of a requirement to perform "limited procedures" (see paragraph 15 of ED-720 (2014)) was broadly supported by several¹³ respondents, including two Monitoring Group respondents, NSS and firms. Those that did not support this requirement included those who were opposed to the term "limited"¹⁴ either because they were of the view that it may be confused with limited assurance or because they thought that the procedures should not be limited. Others, including a Monitoring Group respondent, while supporting paragraph 15, wanted additional requirements to extend the limited procedures concept to paragraphs 14(b)¹⁵ and (c).¹⁶ Various alternative terms for "limited" procedures were suggested, including "other information procedure," "procedures considered appropriate by the auditor," and "such procedures as the auditor, applying professional judgment, considers appropriate in the circumstances."
16. There were also concerns expressed about the requirement to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit (paragraph 14(b) of ED-720 (2014)). These

Organizations: ANAN, ASSIREVI, ACCA, CALCPA, EFAA, ICPAK, IBRACON, IBR-IRE, ICAG, INCP, MICPA, ZICA; *Individuals and Others:* CBarnard, DJuvenal

⁶ *Regulators and Oversight Authorities:* IOSCO; *Member Bodies and Other Professional Organizations:* ICAS

⁷ *Regulators and Oversight Authorities:* IOSCO; *Member Bodies and Other Professional Organizations:* FEE

⁸ *Regulators and Oversight Authorities:* EAIG; *Accounting Firms:* MNP; *Member Bodies and Other Professional Organizations:* ISCA

⁹ NSS: FRC

¹⁰ NSS: IDW

¹¹ *Member Bodies and Other Professional Organizations:* JICPA

¹² See, for example, EAIG and NZAUASB.

¹³ NSS: CNCC/CSOEC, FRC, NZAUASB; *Regulators and Oversight Authorities:* IFIAR, IOSCO; *Accounting Firms:* DTT, EYG; *Member Bodies and Other Professional Organizations:* CAQ, FEE, WPK

¹⁴ *Regulators and Oversight Authorities:* IRBA; NSS: AUASB, FRC, IDW, NBA; *Member Bodies and Other Professional Organizations:* ACCA, FEE, IBR-IRE

¹⁵ *Regulators and Oversight Authorities:* IOSCO; NSS: FRC

¹⁶ *Regulators and Oversight Authorities:* IOSCO

concerns were based on the perspective that the auditor does not have the expertise to consider all aspects of the other information, particularly non-financial and prospective information, and therefore should not be required to read and consider this information.¹⁷ By contrast, a regulatory respondent noted that all the auditor's knowledge should be applied, not just that obtained during the course of the audit,¹⁸ and a Monitoring Group respondent noted that making reference to audit documentation or members of the engagement team (or component auditors) as necessary should be part of the requirement.¹⁹ One respondent also noted that the phrase “during the course of the audit” could be confused with the period of time covered by the audit (thereby incorporating all knowledge obtained by the audit firm over that time period), rather than that obtained from performing the audit as was intended.²⁰

17. In relation to paragraph 14(c) of ED-720 (2014), many respondents did not support inclusion of the requirement to “remain alert” or the way it was expressed, noting variously that it is unclear or may be wrongly interpreted as being more onerous than is intended²¹ or that it is difficult to distinguish from paragraph 14(b).²² One²³ respondent noted that no other ISA duplicates an ethical requirement of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code)²⁴ in this way. Possible solutions suggested included moving it to application material,²⁵ removing it entirely,²⁶ or noting in the proposed ISA that performance of this requirement does not require the auditor to obtain audit evidence beyond that required for an audit of financial statements.²⁷

Task Force Recommendations

18. The Task Force acknowledged the broad range of support received for the work effort requirements overall. The Task Force agreed with those respondents who noted that the work effort requirements were clearer and more capable of consistent interpretation and application. However, in light of some of comments received, the Task Force acknowledged that further clarification of the work effort requirements would be helpful in

¹⁷ NSS: AUASB, JICPA; *Accounting Firms*: MNP; *Preparers of Financial Statements*: HQ; *Member Bodies and Other Professional Organizations*: ISCA

¹⁸ *Regulators and Oversight Authorities*: EAIG

¹⁹ *Regulators and Oversight Authorities*: IAIS

²⁰ NSS: FRC

²¹ NSS: CAASB, HKICPA, JICPA; *Accounting Firms*: EYG, PWC; *Public Sector Organizations*: SNAO; *Member Bodies and Other Professional Organizations*: ACCA, ASSIREVI, EFAA, IBRACON, ISCA, WPK

²² *Regulators and Oversight Authorities*: IOSCO; *Accounting Firms*: PWC; NSS: AUASB; *Preparers of Financial Statements*: CCMC; *Member Bodies and Other Professional Organizations*: ACCA, CAQ

²³ *Accounting Firms*: PWC

²⁴ Paragraph 110.2 of the IESBA Code

²⁵ *Regulators and Oversight Authorities*: IRBA; *Accounting Firms*: EYG; *Public Sector Organizations*: AGSA

²⁶ NSS: AUASB, *Accounting Firms*: PWC

²⁷ NSS: JICPA

applying the ISA. Accordingly, the Task Force recommends the following changes (shown with marked changes from ED-720 (2014)):

Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall:
(Ref: Para. A20–A21)
- (a) Consider whether there is a material inconsistency between the other information and the financial statements; ~~(Ref: Para. A22–A26).~~ *[Note: This sentence relocated from paragraph 15 below]* As the basis for this consideration in paragraph 14(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. The determination of which amounts or other items to select in performing these procedures is a matter of professional judgment; and (Ref: Para. A22–A26)
- (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained ~~during the course of~~ in the audit; ~~and if necessary as the basis for this consideration, the auditor shall refer to documentation or inquire of members of the engagement team or a component auditor.~~ (Ref: Para. A27–A32)
- ~~(c) [Relocated to paragraph 15A below] Remain alert for other indications that the other information appears to be materially misstated. (Ref: Para. A33)~~
15. ~~[Relocated to paragraph 14(a) above] As the basis for the consideration in paragraph 14(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. (Ref: Para. A22–A26)~~
- 15A. [Relocated from paragraph 14(c) above] While reading the other information for material inconsistencies, the auditor shall remain alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A33)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the ~~of~~ other information ~~that~~ appears to be materially misstated), the auditor shall discuss the matter with management (and, if necessary, perform other procedures) to

determine whether: (Ref: Para. A34–A38)

- (a) A material misstatement of the other information exists;
- (b) A material misstatement in the financial statements exists;
or
- (c) The auditor's understanding of the entity and its environment needs to be updated.

19. In proposing these changes, the Task Force agreed with respondents that limited changes would further clarify the expectations of the auditor. Notably:

- The requirements have been restructured to place the requirements to consider whether there is a material inconsistency between the other information and the financial statements (paragraph 14(a)) or the auditor's knowledge (paragraph 14(b)) separate from the requirement to remain alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated (paragraph 15A). In the Task Force's view, doing so aids readers of the ISA in understanding that the requirement to "remain alert" is different in expectation from the requirements in paragraphs 14(a)–(b). The Task Force will consider whether further application material would assist auditors in understanding how to apply paragraph 15A.
- The Task Force noted that, while the majority of respondents were not opposed to the use of the term "limited procedures", those that did not support the term held strong views about why the use of such a term was not appropriate. Accordingly, the Task Force debated whether an alternative term or phrase might better convey the same intention of "limited procedures," without losing the important message that the procedures to be performed are less in extent than would be performed in an assurance engagement. Accordingly, the Task Force is proposing to remove the term "limited" and add an additional sentence of essential explanatory material to the requirement to give the same effect. This additional sentence clarifies that the extent of procedures (that is, the selection of amounts or items for testing) is a matter of professional judgment and is not intended to be exhaustive.
- In recognition of the recommendation from a few regulators, including a Monitoring Group respondent, to specify procedures for paragraph 14(b) as well as paragraph 14(a), the Task Force acknowledges that the understanding of the work effort required may be perceived as relying too much on application material, and therefore proposes to create a conditional requirement (in essence, elevation of existing application material). The conditional requirement acknowledges that it may be necessary for the auditor to refer to documentation, or inquire of members of the engagement team or a component auditor as the basis for that consideration. The Task Force also agreed with the suggestion to reference the auditor's knowledge obtained "in the audit," rather than the knowledge obtained "during the course of the audit," noting that the new phrase clarifies that it is the knowledge obtained from the planning and performance of the audit that is to be applied, rather than the knowledge gained over a time period (which would be a less relevant and more burdensome interpretation).

- As mentioned above, the requirement to “remain alert” has been isolated into a separate paragraph from the other work effort requirements to assist in making clear that the requirement to “remain alert” is only performed as part of the reading and considering required by paragraphs 14(a)–(b). To further clarify paragraph 15A, the Task Force also proposes to add “not related to the financial statements or the auditor’s knowledge obtained in the audit” to the requirement, as was suggested by a respondent to better explain that the requirement to “remain alert” is focused on aspects of the other information that are not related to the audit itself (as other information related to the audit would be covered by paragraphs 14(a)–(b)).²⁸ The Task Force did not see merit in specifying procedures for the requirement to “remain alert” as the Task Force does not believe that performing procedures is necessary to accomplish the requirement.
 - In relation to paragraph 16, the Task Force has sought to improve the clarity of the requirement by moving the phrase “if necessary” so that it is clear that the auditor is always required to make a determination, but that procedures are to be performed if necessary to make that determination.
20. In relation to the other comments received in relation to the work effort requirements, the Task Force noted that:
- The term “consider” is used throughout the ISAs, can be readily interpreted as “reflect upon,” and is used in this context in the proposed ISA. However, the addition of conditional procedures to paragraph 14(b) strengthens the requirement and, in part, is responsive to the criticisms of the verb “consider.”
 - Only a few respondents²⁹ called for the use of terms such as “appears to exist” or “apparent” in other places of the proposed ISA. The Task Force notes that reporting of an “apparent” material misstatement (or similar term) would not be in the public interest, as no party would be in a better place than the auditor to determine whether a material misstatement exists and it would be problematic for the auditor to report publicly regarding a material misstatement that the auditor is not certain exists. The Task Force also notes that extant ISA 720 also requires the auditor to determine if the other information needs to be revised.
 - The Task Force did not believe that the auditor’s responsibilities to read and consider the other information should apply to only parts of the other information. The Task Force noted that extant ISA 720 requires the auditor to read all the other information, even if it is non-financial or prospective in nature.
 - The term “inconsistency” should not be defined as it is intended to take only its dictionary meaning (that is, that the other information is not consistent with either the financial statements or the auditor’s knowledge). The Task Force notes that attempts to define the term in ED-720 (2012) were widely criticized. The Task Force will

²⁸ *Accounting Firms: EYG*

²⁹ *NSS: IDW, JICPA*

consider whether application material could be developed to better explain what is meant by the term in relation to paragraphs 14(a)–(b).

- The Task Force does not consider it necessary to make changes to respond to the few comments received on paragraph 16.³⁰ In making this decision, the Task Force noted that changes to describe management's involvement in investigating possible material misstatements or the possible effects on other ISAs, as was suggested by a few respondents, were too detailed for a principles-based ISA. The Task Force also noted that the public interest is best served by requiring public reporting of material misstatements, rather than "apparent" material misstatements. The Task Force therefore did not agree with a respondent who suggested that the auditor should not be required to determine if an apparent material misstatement actually exist.³¹ The Task Force will consider whether additional application material may usefully address these comments.

Matter for IAASB CAG Consideration

1. Representatives are asked to share their views on the Task Force's recommendations in paragraphs 18–19 above to clarify the auditor's work effort on the other information, including whether such changes are sufficiently responsive to comments received on exposure.

B. The Definition of a Misstatement of the Other Information

Background and Respondents' Comments

21. ED-720 (2014) used a new term "misstatement of the other information" to better encapsulate both factual and qualitative misstatements than the terms in extant ISA 720 (which uses the term "misstatement of fact") or in ED-720 (2012) (which used the term "inconsistency in the other information"). A misstatement of the other information was defined in ED-720 (2014) as follows:

A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including 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.

22. While many respondents either explicitly supported the IAASB's definition of a misstatement of the other information,³² or did not refer to it specifically in their response, several respondents expressed concerns about the definition.³³

³⁰ *Accounting Firms*: DTT, PWC; *NSS*: AUASB

³¹ *Accounting Firms*: PWC

³² *NSS*: AUASB, CNCC/CSOEC, NBA, NZAUASB; *Accounting Firms*: CH, KPMG, RSM; *Public Sector Organizations*: AGC, CIPFA, GAO, INTOSAI, PAS, UKNAO; *Member Bodies and Other Professional Organizations*: ANAN, CACR, CALCPA, EFAA, ICAG, ICPAK, INCP, KICPA, MICPA; *Individuals and Others*: CBarnard, DJuvenal

23. Some of the concerns with the definition were interrelated with concerns about the work effort, in that the ISA requires the auditor to read and consider all information within scope, regardless of how closely it may be related to the financial statements or to the auditor's knowledge obtained during the course of the audit (see also Section A above). One³⁴ member body respondent was concerned that, when considering the other information beyond the financial statements and the auditor's knowledge obtained for the purposes of the audit, expecting the auditor to remain alert to omissions or obscurity is not reasonable. A few³⁵ respondents also noted that there are no criteria for assessing omission or obscurity.
24. However, several³⁶ respondents were concerned about the inclusion of the concept of materiality in the definition and the application of a materiality concept derived from financial statement frameworks to other information. Various, a respondent noted that the definition was too close to that used in ISAE 3000 (Revised),^{37,38} and another respondent³⁹ noted that it used the terms "misstatement" and "material" differently from how these terms are used elsewhere in the ISAs. These respondents noted that a description of materiality, rather than a definition, should be included in either the scope or application material consistent with the approach used in ISA 320⁴⁰ and that the description should be related to the potential for the misstatement to undermine the credibility of the other information rather than those that can reasonably be expected to influence the economic decisions of users,⁴¹ since it was, in their opinion, difficult to assess what information in the other information could reasonably influence the economic decision of users.
25. A few⁴² respondents suggested that the term "misstatement of the other information" should not be used and that the definition be bifurcated in some manner to provide boundaries that are seen to be more realistic than those proposed in ED-720 (2014) or better highlight where the IAASB has "raised the bar." For example, the proposed ISA could separately define:
- Inconsistencies between the other information and the financial statements, or the auditor's knowledge obtained during the audit, and a material misstatement of fact, or apparent omission of fact, that makes the other information misleading; or

³³ *Regulators and Oversight Authorities:* IRBA; *NSS:* IDW; *Accounting Firms:* EYG, GTI, PWC; *Member Bodies and Other Professional Organizations:* IBRACON, ISCA, MICPA

³⁴ *Member Bodies and Other Professional Organizations:* MICPA

³⁵ *Accounting Firms:* PWC; *Preparers of Financial Statements:* CCMC; *Member Bodies and Other Professional Organizations:* MIA

³⁶ *Those Charged with Governance:* AICD; *NSS:* IDW; *Accounting Firms:* BDO, EYG, GTI; *Preparers of Financial Statements:* CCMC; *Member Bodies and Other Professional Organizations:* CAQ

³⁷ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³⁸ *Accounting Firms:* EYG

³⁹ *NSS:* IDW

⁴⁰ ISA 320, *Materiality in Planning and Performing an Audit*

⁴¹ *Accounting Firms:* EYG

⁴² *NSS:* IDW; *Accounting Firms:* PWC

- A “material misstatement of fact” and “otherwise misleading.”
26. A few⁴³ respondents also questioned the use of the phrase “recognizing that the other information is only part of the overall information available to users.” For example, one Monitoring Group respondent noted that “*We struggle to understand how one would make an assessment of materiality that takes into account that “the other information is only part of the overall information available to users”.*”⁴⁴

Task Force Recommendations

27. Recognizing that the majority of respondents either explicitly supported the term “misstatement of the other information” and the definition thereof, or did not suggest changes to either, the Task Force recommends that changes to address the concerns expressed by respondents should occur primarily via application material.
28. Accordingly, the Task Force did not believe that bifurcating the concept of a “misstatement of the other information,” as suggested in paragraph 25, into one or more subsidiary terms would be appropriate. In arriving at this decision, the Task Force noted that some of the terms proposed had been considered, and rejected, in finalizing ED-720 (2014). The Task Force also noted that such a bifurcation would make the ISA more complex. For example, a work effort focused on “inconsistencies,” however defined, is only useful as a trigger to perform further work as an inconsistency does not necessarily mean that the other information is in error (as the financial statements could be misstated or the auditor’s knowledge may need to be updated).
29. Further, the Task Force noted that any bifurcation would need to be unified into a single concept for reporting or risk confusing users with an unnecessarily complex term such as “contains a material misstatement of fact or is otherwise misleading”. In the context of reporting, the Task Force also did not think it would be appropriate to use the simpler term “material misstatement of fact”, as it fails to recognize that the possible misstatements in the other information are broader than just facts.
30. In forming its recommended changes, as shown below, the Task Force built on the suggestion of a respondent⁴⁵ who noted that materiality should be described more broadly than in ED-720 (2014), including, for example, by using language that is closer to extant ISA 320. The Task Force proposes amending the definition of a misstatement of the other information as follows (marked from ED-720 (2014)) and has also drafted additional application material:

12(b). Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). A material misstatement of the other information may inappropriately be

⁴³ Regulators and Oversight Authorities: IAIS; NSS: IDW

⁴⁴ Regulators and Oversight Authorities: IAIS

⁴⁵ Accounting Firms: GTI

~~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. A4A–A4B)~~

...

Misstatement of the Other Information (Ref: Para. 12(b))

A4A. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.

A4B. The concept of materiality may be discussed in a framework applicable to the other information and, if so, may provide a frame of reference for the auditor. In many cases, however, there will be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:

- Materiality is conceptual and based on the common needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements as they read the other information to provide context to the financial statements.
- Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the inclusion or correction of the misstatement. Not all misstatements will influence the economic decisions of users.
- Judgments about materiality may be more dependent on qualitative than quantitative considerations, such as the relevance and reliability of the information or whether the other information is historical or forward-looking.

31. These recommendations provide greater guidance on materiality, while acknowledging the views of the majority who supported the proposed definition of a misstatement of the other information. The proposals above are designed to:

- Clarify that the auditor is not responsible for performing a “completeness” check on the other information, by noting that the phrase “omits or obscures” relates only to the description of the particular matter in the other information.
- Use language drawn from ISA 320 to describe materiality, rather than trying to define it. The new proposed application material (see paragraph A4B in paragraph 30 above) provides useful application material that clarifies many of the concerns expressed about how ED-720 (2014) approached materiality.

- Remove the phrase “recognizing that the other information is only part of the overall information available to users” in response to concerns expressed on exposure.

Matter for IAASB CAG Consideration

2. Representatives are asked to share their views on the proposed definition of a “misstatement of the other information” and the associated application material discussed in paragraphs 30–31 above, including whether such changes are sufficiently responsive to comments received on exposure.

C. Implications of Other Information Obtained after the Date of the Auditor’s Report

Background and Respondents’ Comments

32. Overall, a majority of respondents⁴⁶ supported the ED-720 (2014) position of requiring the same work effort on the other information obtained after the date of the auditor’s report, but not to mandate reporting on such other information. Comments received on this matter included those who did not support any responsibility for other information after the date of the auditor’s report,⁴⁷ compared to two Monitoring Group respondents, regulators and an NSS⁴⁸ who wanted a strengthened requirement addressing such other information.
33. Those opposed to any responsibility for the other information obtained after the date of the auditor’s report focused on the lack of consistency across jurisdictions arising from the differing legal environments, the possible inability of the auditor to perform the procedures required by the ISA when the engagement has ceased (for example, when the auditor has resigned from the engagement), and the difficulty in prescribing procedures for the auditor to undertake if a material misstatement is discovered in such other information.⁴⁹
34. Several respondents⁵⁰ did not agree with the IAASB’s proposal to not require reporting regarding such other information. As one Monitoring Group respondent⁵¹ noted, auditors should be required to include in the auditor’s report the documents that are expected to comprise the other information obtained after the date of the auditor’s report and the expected work effort on such other information. Two respondents, both from the Monitoring Group,⁵² did not believe that, when the auditor finds a material misstatement in such other information, it was in the public interest for the auditor’s obligations to be

⁴⁶ NSS: AUASB, CNCC/CSOEC, HKICPA, NZAUASB; *Accounting Firms*: BDO, CH, DTT, EYG, GTI, KPMG, MNP, PWC, RSM, UAB; *Public Sector Organizations*: AGSA, CIPFA, GAO, INTOSAI, PAS, SNAO, UKNAO; *Preparers of Financial Statements*: HQ; *Member Bodies and Other Professional Organizations*: ACCA, ANAN, ASSIREVI, CalCPA, EFAA, FAR, IBRACON, IBR-IRE, ICPAK, ISCA, KICPA, MICPA, SAICA, ZICA; *Individuals and Others*: CBarnard, DJuvenal

⁴⁷ NSS: CAASB, HKICPA, IDW, JICPA; *Member Bodies and Other Professional Organizations*: AIC

⁴⁸ *Regulators and Oversight Authorities*: EAIG, IAIS, IOSCO; NSS: FRC

⁴⁹ See, for example, CAASB.

⁵⁰ *Regulators and Oversight Authorities*: IOSCO; *TCWG*: AICD; NSS: CAASB; *Accounting Firms*: PWC; *Public Sector Organizations*: AGSA; *Member Bodies and Other Professional Organizations*: IBR-IRE

⁵¹ *Regulators and Oversight Authorities*: IOSCO

⁵² *Regulators and Oversight Authorities*: BCBS, IAIS

limited to “tak[ing] appropriate action,” instead preferring that the proposed ISA stipulate the actions that should be taken, including, for example, providing a new or revised auditor’s report.

35. Some⁵³ respondents favored transparency regarding such other information in the auditor’s report, while another respondent⁵⁴ agreed that such other information should be referenced in the auditor’s report, but solely for the purpose of disassociating the auditor with it.
36. Other suggestions included:
- The proposed ISA should require that, unless prohibited by law or regulation, the auditor’s report should not be issued before all other information is obtained by the auditor.⁵⁵
 - The application material should address the possible need to remain independent of the entity for a longer period than is required by the IESBA Code⁵⁶ when the engagement ceases but such other information is nevertheless expected to be obtained only after the end of the engagement period.⁵⁷

Task Force Recommendations

37. The Task Force acknowledges the call from some stakeholders for greater transparency over the auditor’s responsibilities for the other information obtained after the date of the auditor’s report. The Task Force agrees that there is merit in listing the documents that the auditor determined, through discussion with management, will comprise the other information obtained after the date of the auditor’s report and the expected work effort on such other information. The Task Force will further consider the need for further specification on the required response if there is a material misstatement in such other information.
38. Having said that, the Task Force believes that the proposed response needs to recognize the practical difficulties that led the IAASB to not propose mandating such reporting in ED-720 (2014). Accordingly, the Task Force proposes certain amendments to ED-720 (2014) that it believes, taken together, will address the concerns noted by the IAASB in the EM to ED-720 (2014). These proposals, in brief, are to:
- Clarify and strengthen the requirement to take appropriate action if a material misstatement exists in such other information (see paragraph 39 below).
 - Require the auditor to obtain a written representation regarding the provision of such other information, including if the audit engagement is terminated, so that

⁵³ NSS: CAASB; *Accounting Firms*: PWC; *Member Bodies and Other Professional Organizations*: IBR-IRE, MIA

⁵⁴ NSS: IDW

⁵⁵ NSS: FRC; *Member Bodies and Other Professional Organizations*: FEE, ICAS

⁵⁶ IESBA Code, Section 290.30

⁵⁷ *Accounting Firms*: DTT

management is aware of the need to provide the auditor with such other information. Equally, application material will address the implications for the engagement letter.

- Require the auditor's report to identify the other information that the auditor has determined, through discussion with management, comprise the annual report but that has not been obtained by the auditor prior to the date of the auditor's report. The auditor would also be required to describe the work effort applicable to such other information. The Task Force will further consider whether and, if so, how to require disclosure in the auditor's report of the actions the auditor expects to take if the auditor determines that a material misstatement exists in such other information.

39. In light of the limited time available to consider the comments received on exposure, the Task Force has prioritized responding to the most significant recommended change, being the proposed amendments to paragraph 19(b) of ED-720 (2014) in order to provide additional clarity about the requirement to "take appropriate action" if a material misstatement exists in such other information.

19. If the auditor determines that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

- (a) Perform the procedures necessary under the circumstances if management agrees to correct the other information; or (Ref: Para. A43)
- (b) Take appropriate action, taking into account the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared if the other information is not corrected after communicating with management and those charged with governance. (Ref: Para. A44–A45)

...

Responding When Auditor Determines That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19)

A43. If other information is obtained after the date of the auditor's report, the auditor determines that it is materially misstated, and management agrees to revise the other information, the auditor's procedures may include reviewing the steps taken by management to communicate with individuals in receipt of the other information, if previously issued, to inform those individuals of the revision.

A44. ~~Taking appropriate action when the other information is obtained after the date of the auditor's report and the auditor determines that a material misstatement of the other information exists~~ to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the

auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

A45. Appropriate actions that the auditor may consider taking, when permitted by law or regulation, may include:

- Providing a new or amended auditor's report to management ~~Reissuing the auditor's report to include a modified section in accordance with statement as per paragraph 21(d)(ii), and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;~~
- Directly bBringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
- Communicating with a regulator or relevant professional body; or
- Withdrawing from the audit (see also paragraph A41).

40. In recognition that additional clarification of the requirement would benefit readers, the Task Force has proposed adding the purpose of the appropriate action (being “to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared”) within the requirement to provide further context to the need to “take appropriate action”. This phrase recognizes that the auditor's ability to directly communicate with users after the issuance of the auditor's report may be limited. The additional application material gives further guidance on the types of actions that may be appropriate.
41. Before recommending these changes to paragraph 19 of ED-ISA 720 (2014) and the related application material, the Task Force discussed other options, including providing requirements detailing each step that could be undertaken depending on law or regulation. On the whole, the Task Force believes that such an approach would need to address a wide range of possible circumstances (depending on law or regulation), leading to a more complex ISA, and would be unbalanced because the Task Force believes an uncorrected material misstatement of such other information will be a rare circumstance.
42. Consistent with extant ISA 720, the Task Force does not support an arbitrary cut-off in the auditor's responsibilities at the date of the auditor's report. In arriving at this decision, the Task Force considered various suggestions for cut-off points, including 60 days after the date of the auditor's report (as per ISA 230)⁵⁸ and the issuance of the next auditor's report (including a review report). However, the Task Force noted that all of these left open the possibility that a document that was determined to be part of other information, and

⁵⁸ ISA 230, *Audit Documentation*, paragraph A21

therefore within the scope of proposed ISA 720, would not be subjected to proposed ISA 720's procedures.

43. The Task Force also does not support mandating that all other information be obtained prior to providing the auditor's report. Given the wide variety of circumstances and jurisdictions in which the proposed ISA must operate, it is expected that such a requirement would be of limited effectiveness and may result in delaying users' access to the auditor's report on the financial statements.
44. Finally, in relation to the proposal that the ISA provide application material on the importance of remaining independent of the entity when other information is expected to be obtained only after the end of the engagement period, the Task Force notes that this situation also occurs under ISA 560⁵⁹ and extant ISA 720.

Matters for IAASB CAG Consideration

3. Representatives are asked to share their views on the Task Force's proposal to clarify the requirement to "take appropriate action" when the auditor determines that a material misstatement exists in other information obtained after the date of the auditor's report (see paragraph 39).
4. Representatives are also asked for their views on the Task Force's other proposed responses to the comments received on such other information (see paragraph 38), specifically the proposal to:
 - Require the auditor to obtain written representations from management regarding the provision of such other information; and
 - Require the auditor to list the other information expected to be received after the date of the auditor's report and the expected work effort on such other information within the auditor's report.

⁵⁹ ISA 560, *Subsequent Events*, paragraphs 10–17

Appendix 1

List of Respondents to the Exposure Draft on ISA 720 (2014)

Note: Members of the Monitoring Group are shown in bold below

| # | Abbrev. | Respondent (69) | Region |
|---|--------------|--|---------------|
| Regulators and Oversight Authorities (9) | | | |
| 1. | BCBS | Basel Committee on Banking Supervision | GLOBAL |
| 2. | CSA | Canadian Securities Administrators | NA |
| 3. | 21 AR | Group of 21 European Audit Regulators ⁶⁰ | EU |
| 4. | IAIS | International Association of Insurance Supervisors | GLOBAL |
| 5. | ICAC | Ministerio de Economía y Competitividad (Instituto de Contabilidad y Auditoria de Cuentas) [Ministry of Economics and Competitiveness (Institute of Accounting and Audit)] | EU |
| 6. | IFIAR | International Forum of Independent Audit Regulators | GLOBAL |
| 7. | IOSCO | International Organization of Securities Commissions | GLOBAL |
| 8. | IRBA | Independent Regulatory Board for Auditors (South Africa) | MEA |
| 9. | MAOB | Securities Commission of Malaysia - Audit Oversight Board | AP |
| Those Charged with Governance (1) | | | |
| 10. | AICD | Australian Institute of Company Directors | AP |
| National Auditing Standard Setters (10) | | | |
| 11. | AICPA | American Institute of CPAs - Auditing Standards Board | NA |
| 12. | AUASB | Australian Auditing and Assurance Standards Board | AP |
| 13. | CAASB | Canadian Auditing and Assurance Standards Board | NA |
| 14. | CNCC/CSO EC | Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables | EU |
| 15. | FRC | Financial Reporting Council (UK) | EU |
| 16. | HKICPA | Hong Kong Institute of Certified Public Accountants | AP |

⁶⁰ The 21 countries represented in this group are: Austria, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Ireland, Liechtenstein, Lithuania, Luxembourg, The Netherlands, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom.

| | | | |
|--|---------|---|--------|
| 17. | IDW | Institut der Wirtschaftsprüfer in Deutschland e.V. | EU |
| 18. | JICPA | Japanese Institute of Certified Public Accountants | AP |
| 19. | NBA | Nederlandse Beroepsorganisatie van Accountants | EU |
| 20. | NZAUASB | New Zealand Auditing and Assurance Standards Board | AP |
| Accounting Firms (11)⁶¹ | | | |
| 21. | BDO* | BDO International Limited | GLOBAL |
| 22. | CH* | Crowe Horwath | NA |
| 23. | DTT* | Deloitte Touche Tohmatsu Limited | GLOBAL |
| 24. | EYG* | Ernst & Young Global Limited | GLOBAL |
| 25. | GTI* | Grant Thornton International Ltd | GLOBAL |
| 26. | KPMG* | KPMG IFRG Limited (Network) | GLOBAL |
| 27. | MNP | MNP LLP | NA |
| 28. | PKF* | PKF International | GLOBAL |
| 29. | PWC* | PricewaterhouseCoopers International Limited | GLOBAL |
| 30. | RSM* | RSM International | GLOBAL |
| 31. | UAB | UAB Raimda Auditas | EU |
| Public Sector Organizations (9) | | | |
| 32. | AGC | Auditor General Canada | NA |
| 33. | AGNZ | Auditor General New Zealand | AP |
| 34. | AGSA | Auditor General South Africa | MEA |
| 35. | CIPFA | Chartered Institute of Public Finance & Accountancy | GLOBAL |
| 36. | GAO | United States Government Accountability Office | NA |
| 37. | INTOSAI | Financial Audit Subcommittee of INTOSAI | GLOBAL |
| 38. | UKNAO | National Audit Office (UK) | EU |
| 39. | PAS | Provincial Auditor Saskatchewan | NA |
| 40. | SNAO | Swedish National Audit Office | EU |
| Preparers of Financial Statements (2) | | | |
| 41. | CCMC | Center for Capital Markets Competitiveness | NA |
| 42. | HQ | Hydro Quebec | NA |
| Member Bodies and Other Professional Organizations (25) | | | |
| 43. | ACCA | Association of Chartered Certified Accountants | GLOBAL |

⁶¹ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits. Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

| | | | |
|-----------------------------------|----------|---|-----|
| 44. | AIC | Asociacion Interamericana de Contabilidad | SA |
| 45. | ANAN | Association of National Accountants of Nigeria | MEA |
| 46. | ASSIREVI | Associazione Italiana Revisori Contabili (Association of the Italian Auditors) | EU |
| 47. | CACR | Chamber of Auditors Czech Republic | EU |
| 48. | CALCPA | California Society of CPAs | NA |
| 49. | CAQ | Center for Audit Quality | NA |
| 50. | EFAA | European Federation of Accountants and Auditors for SMEs | EU |
| 51. | FAR | FAR (Institute for the Accountancy Profession in Sweden) | EU |
| 52. | FEE | Fédération des Experts comptables Européens - Federation of European Accountants | EU |
| 53. | FSR | Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants) | EU |
| 54. | IBRACON | Instituto dos Auditores Independentes do Brasil | SA |
| 55. | 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 |
| 56. | ICAG | Institute of Chartered Accountants – Ghana | MEA |
| 57. | ICAS | Institute of Chartered Accountants of Scotland | EU |
| 58. | ICAK | Institute of Chartered Accountants of Kenya | MEA |
| 59. | INCP | Instituto Nacional de Contadores Públicos | SA |
| 60. | ISCA | Institute of Singapore Chartered Accountants | AP |
| 61. | KICPA | Korean Institute of CPAs | AP |
| 62. | MIA | Malaysian Institute of Accountants | AP |
| 63. | MICPA | Malaysian Institute of CPAs | AP |
| 64. | NYSSCPA | New York State Society of CPAs | NA |
| 65. | SAICA | South African Institute of Chartered Accountants | MEA |
| 66. | WPK | Wirtschaftsprüferkammer (German Public Accountants) | EU |
| 67. | ZICA | Zambia Institute of Chartered Accountants | MEA |
| Individuals and Others (2) | | | |
| 68. | CBarnard | Chris Barnard | EU |
| 69. | DJuvenal | Denise Juvenal | SA |