

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 8-9, 2014

## Agenda Item

# J

### **The Auditor's Responsibilities Relating to Other Information – Proposed ISA 720 (Revised) Cover and Report Back**

#### **Objectives of Agenda Item**

1. The objectives of this Agenda Item are:
  - (a) To provide a report back on proposals of the Representatives on this project as discussed at the March 2014 CAG Meeting.
  - (b) To provide a summary of responses to the April 2014 Exposure Draft (ED) of proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information (ED-720(2014))* (See Agenda Item J.2).

#### **Project Status and Timeline**

2. The IAASB approved the issuance of ED-720(2014) in March 2014. Comments were requested by July 18, 2014.
3. At their September 2014 meetings, the CAG and IAASB will be asked to consider feedback from respondents to the April 2014 ED, and consider the Task Force's recommendations on a way forward in light of the issues identified.<sup>1</sup>
4. This paper is being provided to facilitate advance consideration by the CAG Member Organizations (MOs) as to how comments received at the March 2014 CAG meeting were addressed in the ED. The summary of responses to the ED will provide more detail and the Task Force's recommendation as to an appropriate way forward to respond to comments received on exposure.
5. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

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<sup>1</sup> The ED also includes proposed conforming amendments to ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 230, *Audit Documentation*; ISA 260, *Communication with Those Charged with Governance*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; ISA 560, *Subsequent Events*; proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 810, *Engagements to Report on Summary Financial Statements*.

## March 2014 CAG Discussion

6. Below are extracts from the draft minutes of the March 2014 CAG meeting,<sup>2</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
<b>OBJECTIVES</b>	
<p>Ms. Sucher was of the view that the objectives, in terms of how ISAs are usually written, should not make reference to the specific procedures, but rather the auditor's objective of doing the work. She suggested instead that those procedures be referenced in the requirements addressing the work effort.</p> <p>Ms. Blomme agreed and further suggested that the objectives should have a close linkage to the audit of the financial statements, as the current reference to the auditor's knowledge is very broad.</p>	<p>Point not accepted.</p> <p>Mr. Gélard responded that the procedures were incorporated as part of the objectives to address concerns about the scope of the standard being too broad. Mr. Gunn agreed with Mr. Gélard, noting that that the proposed objectives parallel the construction of those in ISA 250,<sup>3</sup> where the objectives also give some sense as to the work effort required.</p> <p>The IAASB determined that the relationship between the objectives of this ISA and ISA 200 should be clarified within proposed ISA 720.</p> <p><b>See paragraph 2 of Agenda Item J-2.</b></p>
<p>Mr. Hansen also expressed concern with including the wording "performing limited procedures" in the objectives. He noted that this could be interpreted as setting a negative tone.</p>	<p>Point not accepted.</p> <p>The Task Force noted that the term "limited" has a specific meaning (that is, restricted in size, amount, or extent) and aids in explaining that the procedures are less than might be done in an audit.</p>
<p>Mr. Waldron was of a view that the revised objectives were more auditor focused rather user focused and suggested that the TF delete the word "apparent" as in the sentence that read "...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." Messrs. Bluhm and Hansen and Mmes. Blomme and Sucher agreed. Ms. Sucher added that there is a public</p>	<p>Point accepted.</p> <p>The term "apparent" was removed from the objective, although the term "appears to ..." is used in relation to matters that cannot be compared to the financial statements or the auditor's knowledge, as the auditor's obligation with respect to such matters is lower than in respect to other aspects of the work effort.</p> <p><b>See paragraph 11 of Agenda Item J-2.</b></p>

<sup>2</sup> The minutes will be approved at the September 2014 IAASB CAG meeting.

<sup>3</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

Representatives' Comments	Task Force/IAASB Response
interest element that should be factored into developing objectives for auditors.	
Mr. Bluhm suggested that, given the revised focus of the objectives, the IAASB should give consideration to further explain what is meant by the term “material inconsistency,” through additional application material.	Point not accepted.  The Task Force believes that the term should take its dictionary meaning, and that a further definition would complicate the ISA.
Ms. Lang inquired about the TF’s rationale for using the word “consider” versus “evaluate” in the ISA, noting that she would have expected to see the word “evaluate” used in the objectives.	Point noted.  Mr. Gélard explained that the word “consider” is used in the ISA when the auditor is expected to reflect upon a matter, and the word “evaluate” is used when it is expected that the auditor performs procedures.
WORK EFFORT	
Mr. Koktvedgaard expressed support for the revisions to the requirements to the auditor’s work effort, but suggested that the requirement to perform limited procedures be revised to provide a closer linkage to the preceding requirement for the auditor “to read the other information to consider whether there is an apparent material inconsistency between the other information and the financial statements.” Ms. de Beer agreed, and further suggested that the linkage should also be made to the objectives of the ISA.	Support noted and point taken into account.  The IAASB agreed to more closely link the objectives and the work effort by using common phrases. The IAASB also improved the linkage between the three elements of the work effort and the requirement to read the other information  <b>See paragraphs 11 and 14 of Agenda Item J-2.</b>
Mr. Baumann suggested that the requirement for the auditor to “read the other information and consider whether there is an apparent material inconsistency between the other information and the auditor’s knowledge gained during the course of the audit” be amended to include the words “for purposes of assessing whether information is either materially misstated or misleading” after the word “audit.” He was of a view that these additional words would anchor the other information to the audit of financial statements. Mr. Stewart also suggested that this requirement	Point not accepted.  Mr. Gélard explained that the Task Force was of a view that the concept of “material misstatement” encompassed situations where the auditor identified either “inconsistencies” or “misleading information.” Mr. Gélard also noted that, if the auditor identifies a material inconsistency between the other information and the financial statements, the auditor needs to determine whether the financial statements or the other information is wrong.

Representatives' Comments	Task Force/IAASB Response
be revised to better describe that the auditor's focus should be on identifying inconsistencies as they relate to the financial statements.	<b>See paragraph 15(b) of Agenda Item J-2.</b>
REPORTING	
<i>Illustrative Wording for the Auditor's Report</i>	
Messrs. Baumann and Koktvedgaard were of the view the illustrative statement about other information to be included in the auditor's report was not user-friendly. Mr. Baumann also suggested that the first two sentences be redrafted to clarify the linkage between them.	Point taken into account. The IAASB agreed to amend the illustrative statement to improve its clarity and to better link with the requirements of the ISA. <b>See paragraph A48 of Agenda Item J-2.</b>
Mr. Fukushima was of a view that the illustrative statement would increase the expectations gap because it did not prominently describe what other information that the auditor read.	Point accepted. Mr. Gélard responded that the auditor is required to identify the other information read by the auditor prior to the date of the auditor's report. Proposed ISA 720 (Revised) includes a footnote reference explaining that the auditor would describe the specific documents that had been considered. <b>See paragraphs 22(a) and A48 of Agenda Item J-1.</b>
Mr. Fukushima suggested that the Task Force consider including the responsibilities of management, as these are equally important.	Point not accepted. The IAASB concluded that such a statement was unnecessary as it is widely understood that management (or those charged with governance, as appropriate) are responsible for the other information. The IAASB also noted that doing so would result in a section similar to an assurance report, increasing the risk of creating an erroneous perception that assurance has been obtained on the other information.
Ms. Lang described the second paragraph within the illustrative statement that reads "The annual report contains the financial statements, this auditor's report thereon, and other information" as superfluous.	Point accepted. The paragraph has been redrafted to improve readability and clarity. <b>See paragraph A48 of Agenda Item J-2.</b>

Representatives' Comments	Task Force/IAASB Response
Ms. Lang and Mr. Thompson noted that the part of the statement that reads "...and remain alert for other indications that the other information is apparently materially incorrectly stated or otherwise misleading" could be improved by stating for how long the auditor remains alert. Ms. de Beer agreed and suggested that the Task Force should consider clarifying what is meant by the term "remain alert", possibly only when reading the other information.	Point not accepted.  The term "remain alert" is used in the ISA with its ordinary meaning and is intended to convey the differential level of effort compared to the previous sentence which addresses the other aspects of the work effort. The auditor's obligation to "remain alert" does not have a fixed end, consistent with the other performance responsibilities and the position in extant ISA 720.  <b>See paragraphs 7, 22(c) and A48 of Agenda Item J-2.</b>
Mr. James questioned the usefulness of including the statement that reads "We have nothing to report in this regard."	Point not accepted.  The IAASB believes that the conclusion is an appropriate statement in light of the auditor's responsibilities, particularly as it is clearly different from an assurance conclusion. The IAASB notes that, if the auditor determines that there is an uncorrected material misstatement in the other information, the auditor is required to describe the material misstatement.
Mr. White, though supportive of the illustrative statement, suggested it would be more meaningful if the ordering of paragraphs two and three were reversed.	Point accepted.  <b>See paragraph A48 of Agenda Item J-2.</b>
<p style="text-align: center;"><i>Reporting on Other information obtained after the Date of the Auditor's Report</i></p> <p>[Note: three options were discussed with the CAG in this respect:</p> <ul style="list-style-type: none"> <li>• Option 1: Mandating identification of the other information expected to be obtained after the date of the auditor's report.</li> <li>• Option 2: Mandating reissuance of the auditor's report, unless prohibited by law or regulation, when other information is obtained after the date of the auditor's report and there is a material misstatement in that other information.</li> <li>• Option 3: Not requiring identification of, or reporting on, other information obtained after the date of the auditor's report, but continuing to require the auditor to read and consider such other information.]</li> </ul>	
Ms. de Beer noted that this was a good example of where the Board should start at what it considered to be the best or ideal option in the	Support noted.

Representatives' Comments	Task Force/IAASB Response
public interest, but then make some adjustments in order to recognize the general difficulties with that best option over a broad range of jurisdictions, e.g. an inability by law to hold back or reissue the auditor's report.	
Messrs. Koktvedgaard and Waldron and Ms. Sucher expressed a preference for Option 1. Mr. Waldron indicated that certain aspects of Option 2 were also favorable, particularly in those jurisdictions where dual dating of the auditor's report is prohibited.	<p>Points not accepted.</p> <p>The IAASB determined that both options 1 and 2 introduce a further degree of complexity and inconsistency about the auditor's required actions, which is difficult to reconcile with calls for simplicity and clarity in the revision of ISA 720. Instead of these two alternatives, the ISA requires the auditor to take appropriate action, taking into account the auditor's legal rights and obligations.</p> <p><b>See paragraph 19 of Agenda Item J-2.</b></p>
Mr. Thompson questioned whether, in a situation where the auditor is aware that other information is coming, it would be preferable and practical to wait to issue the auditor's report. Messrs. Waldron and White agreed, but noted that the timing of the financial reporting filings is based on corporate law, and it is not always feasible or possible to wait.	<p>Point not accepted.</p> <p>Mr. Gunn noted that reviewing other information is not part of issuing the financial statements and was not intended to be. He further explained that some jurisdictions permit the finalization of annual reports up to six months after issuance of the financial statements.</p>
Mr. Bluhm cautioned against reporting when part or all other information is obtained after the date of the auditor's report, as he believed it could potentially expand the scope of the ISA.	<p>Point not accepted.</p> <p>Mr. Gélard explained that the last paragraph was inspired by current practice in Australia and that the illustrative wording would need to be tailored to adjust for timing differences in the release of auditor's reports.</p>
<p>Mr. Hansen suggested that it was important to identify the other information that has not been reviewed and that it was also important not to change the date of the auditor's report.</p> <p>He also suggested that the Task Force consider having this information reported in a separate report, as is the case with auditor reporting on internal control over financial reporting, noting</p>	<p>Point accepted.</p> <p><b>See paragraph A48 of Agenda Item J-2.</b></p> <p>Point not accepted.</p> <p>Mr. Gélard responded that having a separate report would give the perception that the auditor had conducted a separate engagement with respect to other information, and that the auditor's work effort</p>

Representatives' Comments	Task Force/IAASB Response
that such an approach would provide a bit more flexibility.	was not a derivative of the audit of the financial statements which could potentially increase the expectations gap.
Mr. Lu was of a view that requiring the auditor to report again when the outstanding part of the other information is obtained after the date of the auditor's report would cause the auditor's report to be more complicated and confusing to the users. Ms. de Beer agreed, adding that the illustrative statement to be included in the auditor's report needs to be clear and sensible as to what information is or is not included.	Support noted.
Mr. Dalkin explained that within the public sector Option 3 works best. Ms. de Beer noted that because the ISAs are applicable to public sector audits, it would be important for the Task Force to ensure that the option selected is workable for public sector auditors.	Support noted. Prof. Schilder acknowledged the diverse views. He expressed a preference for Option 1 because of its specific and prominent identification of the other information. However, he noted that the complexity introduced by diverse approaches across jurisdictions limits what the IAASB can require to be included in the auditor's report.
REPORT BACK AND OTHER MATTERS	
Mr. Koktvedgaard noted that the definition of other information was not always linked to the annual report.	Point taken into account. Mr. Gélard explained that the term "annual report" could refer to one document or a series of documents that are intended to serve a particular purpose. <b>See paragraphs 13(a) and A1–4 of Agenda Item J-2.</b>
Mr. Dalkin and Ms. Sucher expressed strong support for re-exposing the ISA for public comment in light of the extent of changes being proposed. Ms. de Beer asked whether there were any Representatives who objected. None did.	Support for re-exposure noted.

**Material Presented – IAASB CAG PAPER**

Agenda Item J.1	ISA 720 – Summary of Responses Received and Task Force Recommendations
Agenda Item J.2	Exposure Draft (ED) of proposed ISA 720 (Revised), <i>The Auditor's Responsibilities Relating to Other Information</i>



## Appendix 1

### Project History

**Project: Proposed Revised ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon***

### Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2010	December 2009
Development of Proposed International Standard (up to Exposure)	March 2010 September 2010 March 2011 September 2011 - March 2012 (project update)	March 2010 September 2010 March 2011 September 2011 December 2011 -
Consideration of Comments Received on Exposure	September 2012 September 2013 March 2014	September 2012 December 2013 March 2014
Consideration of Comments Received on Re-Exposure	September 2014	September 2014

### CAG Discussions: Detailed References

<b>Project Commencement</b>	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-1 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245</a></p> <p>See CAG meeting minutes (in Agenda Item N of the following material):  <a href="http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211">http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</a></p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p>
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<p><b>Development of Proposed International Standard (Up to Exposure)</b></p>	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-2 of the following): <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245</a></p> <p>See CAG meeting minutes (in Agenda Item N of the following): <a href="http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211">http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</a></p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following): <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item M of the following): <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p> <p>See CAG meeting minutes (in Agenda Item M of the following): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</a></p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094</a></p> <p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item O of the following): <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&amp;ViewCat=1493">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&amp;ViewCat=1493</a></p> <p>See CAG meeting minutes (in Agenda Item O of the following): <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf</a></p> <p>See report back on March 2011 CAG meeting (in paragraph 5 of the following): <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</a></p> <p><u>September 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following): <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item F of the following): <a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-Draft_September_2011_Public_Minutes-Marked-v3.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-Draft_September_2011_Public_Minutes-Marked-v3.pdf</a></p>
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	<p><u>March 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Item E6 of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item E of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_Draft_March%202012_Public%20Minutes-final-marked.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_Draft_March%202012_Public%20Minutes-final-marked.pdf</a></p>
<b>Consideration of Comments Received on Exposure</b>	<p><u>September 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Item C of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf</a>  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C1_ISA_720-v3.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C1_ISA_720-v3.pdf</a>  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C2_ISA%20720-Prop_Conseq_Conform_Amend-v3.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C2_ISA%20720-Prop_Conseq_Conform_Amend-v3.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item C of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/April%202013%20IAASB%20CAG%20Public%20Minutes%20a%20Approved.pdf">http://www.ifac.org/sites/default/files/meetings/files/April%202013%20IAASB%20CAG%20Public%20Minutes%20a%20Approved.pdf</a></p> <p><u>September 2013</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20130823-IAASBCAG-Agenda_Item_B1-ISA_720_Cover-clean-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20130823-IAASBCAG-Agenda_Item_B1-ISA_720_Cover-clean-final.pdf</a>  <a href="http://www.ifac.org/sites/default/files/meetings/files/20130910-IAASBCAG-Agenda_Item_B_ISA_720-final_0.pdf">http://www.ifac.org/sites/default/files/meetings/files/20130910-IAASBCAG-Agenda_Item_B_ISA_720-final_0.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item B of the following):</p>

	<p><a href="http://www.ifac.org/meetings/new-york-usa-2">http://www.ifac.org/meetings/new-york-usa-2</a></p> <p><u>March 2014</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following):</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/20140317-IAASB-Agenda_Item_2-A-ISA_720-Issues-v8.pdf">www.ifac.org/sites/default/files/meetings/files/20140317-IAASB-Agenda_Item_2-A-ISA_720-Issues-v8.pdf</a></p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/20140317-IAASB-Agenda_Item_2-E_ISA_720-Conform-FINAL.pdf">www.ifac.org/sites/default/files/meetings/files/20140317-IAASB-Agenda_Item_2-E_ISA_720-Conform-FINAL.pdf</a></p> <p>See report back on March 2014 CAG meeting in paragraph 6 of this paper.</p>
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