



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Committee: IAASB Consultative Advisory Group

Meeting Location: Prague

Meeting Date: September 12–13, 2011

**The Auditor's Responsibilities Relating to Other Information in Documents
Containing or Accompanying Audited Financial Statements and the
Auditor's Report Thereon—ISA 720—
Report Back and Issues and Task Force Proposals**

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Provide a report back on proposals of the Representatives on this project as discussed at the March 2011 CAG Meeting; and
 - (b) Obtain the Representatives' views on a remaining significant issue to be discussed by the IAASB at its September 2011 meeting relating to the revision of ISA 720.
2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. The IAASB will be asked to approve proposed ISA 720 (Revised)¹ for exposure at its September 2011 meeting, along with proposed consequential amendments to ISAs 260 and 700.² For reference only, the full set of meeting papers for the September 2011 IAASB meeting are included as CAG Reference Papers.
4. Appendix 1 of this paper provides a project history, including links to the relevant CAG documentation.

March 8-9, 2011 CAG Discussion

5. Below are extracts from the draft minutes of the March 2011 CAG meeting,³ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

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*

² ISA 260, *Communication with Those Charged with Governance* and ISA 700, *Forming an Opinion and Reporting on Financial Statements*

³ The minutes will be approved at the September 2011 IAASB CAG meeting.

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives' Comments	Task Force/IAASB Response
DOCUMENTS IN THE SCOPE OF ISA 720	
Mr. Koktvedgaard, as the Rapporteur for the CAG WG, noted that the WG was generally in agreement with the direction taken by the Task Force.	Support noted.
Mr. Koktvedgaard raised the matter of whether Sharia Law requirements would be included in the scope of the proposed ISA and suggested that, if this was the Task Force's intent, then including reference to Sharia Law in the definition of other information or within the application material would be helpful.	Mr. Gélard explained that the Task Force's understanding was that Sharia Law requirements would be considered as part of the requirements of the applicable financial reporting framework and any description of Sharia requirements would be covered by the auditor's work in accordance with ISA 700, not ISA 720.
Mr. Ratnayake questioned how an auditor, at the time of preparing his audit report, would be able to know that the report would be attached to another document.	Mr. Gélard explained that the auditor would either be aware of the documents that are required by law to accompany financial statements (for example, management's report) or would inquire as to how the auditor's report would be used and address this in the engagement letter when the engagement is accepted. See Section A on "Scope" in this CAG paper.
Mr. Hansen expanded upon the point raised by Mr. Ratnayake, noting that for private companies in the US the auditor frequently does not know what the client may do with the auditor's report after it is issued. For example, he explained that the entity may include the auditor's report in a registration statement for an exempt offering or otherwise provide it to a regulatory body. To safeguard against this, Mr. Hansen noted that the engagement letter will make reference to the entity's need to obtain a consent from the auditor and will perform additional procedures on the document in which the auditor's report is included to ensure the information is not inconsistent with the financial statements on which	Mr. Gélard noted* the IAASB's intent to scope this circumstance out of the standard, in that the auditor cannot be reasonably expected to have a responsibility to read documents that are issued months after the auditor's report is released. In his view, this is more a matter of auditor association and how the auditor's reported is used, rather than part of the financial statement audit. The auditor's responsibilities under ISA 720 extend to those documents issued by an entity that are within the scope of the ISA. Because it

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives' Comments	Task Force/IAASB Response
<p>the auditor has previously reported. He questioned whether this circumstance would be covered by the proposed revised ISA.</p> <p>[*In response to Mr. Gélard's comment,] Mr. Hansen noted the need to acknowledge what an auditor's responsibility would be if the auditor became aware of a contradiction to the auditor's report in such circumstance.</p> <p>Mr. Baumann noted the consent of the auditor refreshes the auditor's report at the date the consent is signed, and the auditor performs additional subsequent event procedures in order to issue the consent. In his view, the auditor's responsibility for the other information included in the offering documents is the same as the responsibility when the financial statements on which the auditor reports are originally issued.</p>	<p>is desirable for there to be a common understanding between the auditor and the entity with regard to the auditor's responsibilities under ISA 720, the Task Force proposes guidance in ISA 260 to encourage the auditor to communicate with those charged with governance, when communicating an overview of the planned scope and timing of the audit under ISA 260,:</p> <ul style="list-style-type: none"> • Information on the documents for which the auditor has responsibilities under revised ISA 720; • What these responsibilities are; and • The timing at which it has been agreed with management that such documents will be made available to the auditor. <p><i>See paragraph A13 of Agenda Item 5-D of the September 2011 IAASB meeting.</i></p> <p>Prof. Schilder suggested that further exploration of this issue was necessary, as there may be differences when the auditor gives consent to use the auditor's report but does not perform additional procedures to refresh the auditor's report (that is, the consent is not currently dated) compared to the scenario outlined by Mr. Baumann. Mr. Johnson agreed.</p> <p>Draft revised ISA 720 is not intended to apply to preliminary announcements of financial information and securities offering documents or other prospectuses. However, the Task Force proposes guidance to clarify that the auditor may be required by law, regulation or contract to perform work on such documents. In these circumstances, the ISA may be applied, adapted as necessary. Additionally, paragraph A1 of ISA 560 addresses the circumstances when audited</p>

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives’ Comments	Task Force/IAASB Response
	<p>financial statements are included in other documents subsequent to the issuance of the financial statements. It is explained that the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered.</p> <p>See paragraphs 5 and A1 of Agenda Item 5-B of the September 2011 IAASB meeting.</p> <p>See Section A on “Scope” in this CAG paper.</p>
<p>Mr. Kotkvedgaard inquired whether electronic information, including XBRL, is covered if it is published at the same time as the auditor’s report. Mr. Gélard noted the issue of electronic dissemination is broader than just other information and relates to the audit of the financial statements, so it has been scoped out from the proposed revised standard. He noted in addition that corporate governance statements published only on the internet would also be scoped out.</p>	<p>The Task Force proposes guidance in ISA 720 to explain that eXtensible Business Reporting Language tagged data does not represent other information as contemplated in this ISA, because it is simply a machine-readable rendering of the data within the financial statements, rather than other information, as defined in the ISA.</p> <p>See paragraph A7 of Agenda Item 5-B of the September 2011 IAASB meeting.</p>
<p>STRENGTHENING THE AUDITOR’S APPROACH TO OTHER INFORMATION</p>	
<p>Ms. Blomme believed it was not clear in the current proposal what the auditor is obligated to report having read and considered the other information, and suggested the proposed standard could be more specific in this regard.</p>	<p>Mr. Gélard noted that extant ISA 720 did not require the auditor to explicitly report on the work performed in accordance with the ISA and the Task Force did not intend for this to be changed in the revised standard. However, he noted that if misrepresentations of other information were noted by the auditor and not addressed by management or those charged with governance, the provisions of ISA 705⁴</p>

⁴ ISA 705, *Modifications to the Opinion in the Independent Auditor’s Report*

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives' Comments	Task Force/IAASB Response
<p>Ms. Blomme suggested the IAASB aim to better clarify the auditor's procedures when other information is deemed to be materially misstated.</p>	<p>and ISA 706⁵ would apply. He also explained that the IAASB WG dealing with auditor reporting was considering whether there should be enhanced reporting on other information.</p> <p>This proposal is retained in the draft revised ISA 720 to be considered by the IAASB at its September 2011 meeting.</p> <p>See paragraphs 14, 18 and A26 of Agenda Item 5-B of the September 2011 IAASB meeting.</p> <p>The Task Force proposes to clarify the auditor's procedures when the auditor has determined that the matter(s) materially affects the other information by:</p> <ul style="list-style-type: none"> • Correcting the sequencing of some of the procedures to be taken by the auditor; and • Simplifying the language used to describe some of the procedures. <p>See paragraphs 15-20 of Agenda Item 5-B of the September 2011 IAASB meeting</p>
<p>Mr. Kocktvedgaard noted that previous discussions had indicated that the use of the word "consider" may lead to differing interpretations of what is intended and may also cause difficulties from a translation perspective.</p> <p>[In response to Mr. Gélard's comment*,] Mr. Kocktvedgaard suggested this could be further clarified in the application material.</p>	<p>Mr. Gélard explained* the Task Force's view that clarifying that considering the other information is done in light of the auditor's understanding of the entity would give the auditor appropriate context in which to perform the work.</p> <p>The Task Force proposes to further clarify the auditor's work effort by:</p> <ul style="list-style-type: none"> • Explaining that the ISAs do not impose an obligation on the auditor to obtain assurance as to the accuracy, reliability or

⁵ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives’ Comments	Task Force/IAASB Response
	<p>completeness of such other information sufficient to express a conclusion thereon; and</p> <ul style="list-style-type: none"> Explaining that, where the other information extends beyond the auditor’s knowledge of the entity and its environment acquired in connection with the audit, the auditor is not required to seek to enhance their knowledge of the entity and its environment beyond that required for purposes of the audit. <p>See paragraphs 3 and A15 of Agenda Item 5-B of the September 2011 IAASB meeting</p>
<p>Mr. Baumann raised a concern about the use of the word “misrepresentation” in the context of the other information, noting that its meaning could vary by jurisdiction. For example, he noted in the US that the term would typically be used to describe an intentionally false statement and that, should auditors interpret the proposed ISA in this way, they may not appropriately focus on the other information if they believe the intent is only to consider whether management has intentionally made false statements, as opposed to whether the other information contains factual inaccuracies (which in his view may encompass matters of judgment, expectations or unsupported statements).</p> <p>Mr. Bluhm agreed with Mr. Baumann, and also noted difficulty with omissions being included as a misrepresentation of other information. In his view, this may extend the auditor’s responsibility too far. He suggested the Task Force consider whether additional application material could be used to put this in context. Ms. Blomme expressed the view that the auditor does not perform audit work on other information, so care should be taken to evaluate whether using the term “misrepresentation” implies a higher level of effort than</p>	<p>The Task Force proposes to replace “misrepresentation” with the term “matter(s) that affects the other information.” A more generic phrase was selected so as to avoid the possibility of the term being associated with similar terms used in another context.</p> <p>See paragraph 8(b) of Agenda Item 5-B of the September 2011 IAASB meeting</p> <p>The Task Force proposes to clarify that the auditor’s work effort with respect to omissions only encompasses subjects that are <i>already addressed</i> in the other information. The expectation is <i>not</i> for the auditor to identify subject matters that have been omitted from the document for which the auditor has no knowledge.</p> <p>See paragraph 8(b)(iii) of Agenda Item 5-B of</p>

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives’ Comments	Task Force/IAASB Response
what is intended or possible.	<i>the September 2011 IAASB meeting</i>
PRELIMINARY ANNOUNCEMENTS AND AUDITOR ASSOCIATION	
<p>Mr. Johnson supported the IAASB exploring what further standard-setting was necessary in relation to preliminary announcements, agreeing that this did not necessarily need to be considered in the scope of proposed revised ISA 720. He noted his continued concern that the majority of investor decisions are based on preliminary announcements. In his view, focusing procedures of preliminary announcements will strengthen the quality of financial reporting. Mr. Baumann agreed, noting the linkage with the auditor reporting project and time lag between the earnings release and the auditor’s report. In his view, the question of the auditor’s involvement in preliminary announcement speaks to the relevance of what the audit is about and will require others in addition to standard-setting bodies to consider what should be done.</p>	<p>The IAASB’s consultation paper, <i>Proposed IAASB Strategy and Work Program for 2012-2014</i> issued in January 2011 included in the list of possible actions to implement the proposed strategy the consideration of whether to develop a new standard or guidance to address the auditor’s responsibilities relating to preliminary announcements.</p> <p>The IAASB will undertake a full review of respondents’ comments on the consultation paper at its September 2011 meeting. Included in Agenda Item K.1 is the Steering Committee’s recommendation for a project to “determine, after the revision of ISA 720 is finalized, actions to be taken regarding auditor association with preliminary announcements based on research undertaken in consultation with regulators and other stakeholders (Preliminary Announcements).”</p>
<p>Ms. Blomme suggested that the topic of preliminary announcements could be considered as part of the broader issue of auditor association. In her view, matters such as analyst briefings, the auditor’s association with compiled financial statements when a report is not issued (and therefore proposed ISRS 4410⁶ would not apply) should be included in the IAASB’s consideration of a way forward.</p>	<p>The IAASB’s consultation paper, <i>Proposed IAASB Strategy and Work Program for 2012-2014</i> issued in January 2011 included in the list of possible actions to implement the proposed strategy the consideration of whether work on the broader topic of auditor association may be appropriate.</p> <p>The IAASB will undertake a full review of respondents’ comments on the consultation paper at its September 2011 meeting.</p>

⁶ Proposed ISRS 4410, *Compilation Engagements*

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Waldron, while supporting the view that preliminary announcements are important, cautioned that any guidance for auditors on dealing with this needed to be balanced with the time needed for such procedures, in light of the fact that the speed of the information to the market is important. Mr. Baumann noted that in many major publicly listed companies audit committees already request auditors to perform procedures on preliminary announcements. Mr. Johnson explained that this is also required by the stock exchange in the UK. However, Mr. Gélard noted that in other jurisdictions, such as France, auditor involvement with preliminary announcements is not required. He explained that the French securities regulator has asked issuers to state in their preliminary announcement the stage of completion of the audit. Mr. Peyret was of the view that their focus is on financial communication and entities have been criticized when the key figures in the preliminary announcement were different from the audited financial statements.</p>	<p>See comment above relating to preliminary announcements.</p>
<p>Mr. Koktvedgaard agreed that preliminary announcements and auditor association should not be covered in ISA 720, but suggested that it might be a broader topic to be explored with other bodies. Mr. Gélard noted that, with respect to auditor association, there are likely links to the <i>Code of Ethics for Professional Accountants</i> and so a more generic standard on auditor association may be helpful.</p>	<p>Support noted.</p>

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Matter for CAG Consideration

A. Scope

6. The March 2011 version of draft revised ISA 720⁷ included a proposed description of key features of documents that are intended to be within the scope of proposed revised ISA 720 as follows:
 - (a) *Nature and purpose.* Contains or accompanies the audited financial statements and the auditor's report thereon for purposes of providing further commentary aimed at enhancing the user's understanding of:
 - (i) The audited financial statements; or
 - (ii) The entity, and its state of affairs;
 - (b) *Timing of availability.* Intended to be made available along with the initial release, typically annually, of the audited financial statements and the auditor's report thereon; and
 - (c) *Intended users.* Same as the intended users of the audited financial statements.
7. The IAASB CAG and IAASB expressed support for such an approach to describe documents that are intended to be in the scope of the standard. However, it was noted that there are examples at the national level of documents that should be within the scope of proposed revised ISA 720 but that may appear not to display all of the key features described above (an example was given of documents similar to Management Discussions & Analysis that may be issued prior to the audited financial statements) or, on the contrary, of documents which may appear to display all of the key features but should not be in the scope of proposed revised 720. The Task Force was asked to consider revisions to the key features as appropriate in light of such cases.
8. Based on the comments received and further survey work undertaken by the Task Force,⁸ two areas of the above description of scope have been highlighted as requiring further attention:
 - *Nature and Purpose.* Feedback indicates that it remains unclear which “accompanying documents” are intended to be scoped in or out of proposed revised ISA 720.

⁷ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statement and the Auditor's Report Thereon*

⁸ In March 2011, the IAASB supported the Task Force's recommendation to undertake an informal survey of a sample of stakeholders to ascertain whether there is consistent reading of draft revised ISA 720 in the context of the documents issued at the national level. The Task Force acknowledges the assistance of staff of the International Organization of Supreme Audit Institutions (INTOSAI) with the survey of the supreme audit institutions. Generally, results of the survey pointed to similar areas raised by the IAASB members in March 2011 as needing further attention. The Task Force has taken these findings into account in revising the proposed key features description.

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

- *Timing of Availability.* It was raised with the Task Force that some accompanying documents that are intended to be scoped into proposed revised ISA 720 may be issued slightly after or, on the contrary, slightly in advance of the issuance of the audited financial statements.
9. *Preliminary Announcements and Securities Offerings.* In addition, feedback suggested that there remains the need to clarify the intent of proposed revised ISA 720 with regard to securities offering documents and other prospectuses and preliminary announcements.

Nature and Purpose

10. In their previous discussions, the IAASB CAG and IAASB supported the notion of updating extant ISA 720 to reflect its application in practice to documents other than annual reports. In particular, it was recognized that other information that may affect the credibility of the audited financial statements and the auditor's report thereon may be located separately from the audited financial statements and the auditor's report thereon in an *accompanying* document. Accordingly, it was agreed the scope of ISA 720 should give recognition to such documents.
11. Feedback received indicated that, in the minds of readers, there continues to be ambiguity as to which "accompanying documents" are intended to be within or outside of the scope of proposed revised ISA 720. In particular, at the national level, there are a number of examples of documents accompanying audited financial statements and the auditor's report thereon that may appear to display all of the key features proposed for documents that are intended to be within the scope of proposed revised ISA 720. However, due to the nature of such documents and the circumstances under which they are issued, it raises doubt as to whether they indeed *should* be within the scope of the ISA (for example, sustainability reports).
12. Accordingly, the Task Force believes that it is essential to revisit the question of intent around "accompanying" documents and where such a boundary should be drawn (that is, which accompanying documents are intended to be in and out of the scope of proposed revised ISA 720), and how that should be articulated.

Proposed Options for the IAASB's Consideration

13. The Task Force continues to believe that it is appropriate for proposed revised ISA 720 to be expanded to address documents that *accompany* audited financial statements and the auditor's report thereon. This is because other information included in documents like annual reports that include the audited financial statements is, in some cases, presented to intended users separately in a document that does not contain the audited financial statements but instead accompanies them.

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

14. However, because an entity may prepare a wide range of documents that may be released at or around the same time as the audited financial statements and the auditor's report thereon, it raises the question of whether all documents that accompany the audited financial statements should be in or out of the scope of proposed revised ISA 720 or whether certain documents should be scoped out depending on their content. Accordingly, it is essential to provide auditors with clear directions for making such determinations when performing the procedures required under proposed revised ISA 720.
15. The Task Force presents two options for the IAASB's consideration as shown below:

OPTION A	OPTION B
<p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <p>a. Contains audited financial statements and the auditor's report thereon; or</p> <p>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and:</p> <p style="padding-left: 20px;">i. Has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment; and</p> <p style="padding-left: 20px;">ii. Its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit.</p>	<p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <p>a. Contains audited financial statements and the auditor's report thereon; or</p> <p>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process.</p>

16. For convenience, a comparison of the proposed wordings (including application and explanatory material) under Option A and Option B is presented in Appendix 2 to this CAG Paper.
17. Broadly the following are the key aspects that differentiate Option A from Option B:
- Option A has a broader scope. While expanding the scope of proposed revised ISA 720 to include documents that *accompany* the financial statements and auditor's report will likely lead to an increase in the number of documents to be read and considered by

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

auditors (and therefore necessitating an increase in the auditor's work effort),⁹ the Task Force believes that it is possible that an even larger number of documents will be included under Option A (in comparison to Option B).

- Under Option A, the subject matter(s) of the accompanying document is key to determining whether or not the document is intended to be within the scope of proposed revised ISA 720. The Task Force anticipates that, under this option, greater judgment would be required to be exercised by the auditor. A consequence of this is that, in implementing the standard, inconsistencies in practice may be observed.
18. Under both options, documents for which the auditor is not required to have knowledge of the subject matter(s) for purposes of the audit are excluded from the scope of proposed revised ISA 720. For example, documents that are intended to report on specific subject matters such as diversity and equal opportunity, product responsibility, labor practices and working conditions, and human rights are excluded.
 19. Favored by a slight majority of Task Force members, Option A supports the notion that the auditor's knowledge acquired during the audit typically spans across a wide range of subject matters. On this basis, those in favor of Option A believe it is in the public interest for auditors to read and consider such documents given that users will associate auditors with them because they accompany the audited financial statements. Further, these Task Force members are of the view that auditor involvement would result in improvements to the preparation process and to the overall quality of these documents.
 20. Accordingly, Option A proposes that the scope of proposed revised ISA 720 includes documents that address broader subject matters, for example, depending on the circumstance, sustainability reports. However, it is recognized that this will result in an increase in the work effort required of the auditor and may potentially present challenges in practice (see paragraph 17 of this paper).
 21. Option B circumscribes the auditor's responsibility to documents that are prepared to provide commentary on or to enhance users' understanding of the audited financial statements and the financial reporting process. Task Force members in favor of this Option believe that it is appropriate to focus the scope of proposed ISA 720 on such documents because they are directly related to the purpose of the financial statement audit.
 22. Option B supports the notion that clarity in the scope of proposed revised ISA 720 and certainty in the minds of auditors are critical to the practical application of the standard. Focusing the ISA on such documents will lead to greater consistency as to the documents that

⁹ The auditor's responsibility under extant ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, extends solely to documents that contain audited financial statements; this refers specifically to annual reports.

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

are determined by auditors to be within and outside the scope of proposed revised ISA 720, and thus reduce the risk of inconsistent application of the standard in practice.

23. Those in support of Option B acknowledge that auditors may obtain some understanding of the broader subject matters contemplated by Option A for the purposes of the audit and that often such subject matters are covered in annual reports or management commentary. However, the concern is that the documents contemplated under Option A cover such broader subject matter(s) at a much greater level of granularity or detail than is necessary for the purposes of the financial statement audit. The nature of such information would also not typically be considered during the planning of the audit. Therefore, the auditor could not reasonably have been expected to have acquired sufficient knowledge during the audit (under the extant scope of an ISA-compliant audit) to be able to meaningfully meet the objectives of proposed revised ISA 720. Additionally, it is feared that some users may take a higher level of assurance from auditor involvement with such documents than is intended thus widening the expectation gap.
24. This concern leads to the broader question of whether the level of “comfort” that may be sought with such broader scope documents is better provided through a separate engagement or possibly an extension to the scope of the audit. These considerations are beyond the scope of this project to revise ISA 720.
25. Separately, the Task Force noted the possibility that disclosing in the auditor’s report the documents read and considered by the auditor under proposed revised ISA 720 may more effectively address the risk that auditors may inadvertently be associated with documents that accompany the audited financial statements that are not intended to be within the scope of the ISA. This issue it is being considered by the IAASB Working Group on auditor reporting.
26. The Task Force recognizes that there are merits to both Option A and Option B. However, for determining the preferred option that is in the best interest of the public, the underlying challenge lies in the difference in philosophy regarding the role of ISA 720. The arguments for both schools of thoughts are highlighted above. In making a decision, it is important to strike the right balance between the desire for the auditor to value-add to the other information as part of the audit process, the possible inadvertent effect on the expectation gap (some users may assume a degree of reliance that is not intended) and the likely impact on practice. Accordingly, the Task Force felt that discussions with the IAASB CAG and IAASB are necessary in order to determine which arguments should weigh most heavily in the decision on the scope of proposed revised ISA 720.

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Matters for CAG Consideration

1. Representatives of the CAG are asked whether there are any other matters that have not been considered by the Task Force but which should be taken into account in determining the scope of proposed revised ISA 720.
2. Representatives of the CAG are asked to share their views on Option A and Option B. Subject to the IAASB's discussion at its September 2011 meeting:
 - a. Regardless of the option selected, do Representatives of the CAG agree that the Explanatory Memorandum to the Exposure Draft (ED) should include a discussion of the alternative option considered and the reasons why it is a less preferred option?
 - b. Do Representatives of the CAG agree that a question should be included in the ED to ask respondents for their view on whether the scope of proposed revised ISA 720 has been clearly defined, including whether it has been appropriately circumscribed?

IAASB Interaction with the IAASB CAG

27. The substantive issue being raised on the project for the purposes of the September 2011 IAASB meeting is included in this paper. Accordingly, this serves as the final discussion of the project prior to its anticipated approval as an exposure draft by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development of the exposure draft of proposed ISA 720 (Revised). The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 5-A of September 2011
IAASB Meeting, IAASB Issues and Task
Force Proposals

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6367

Agenda Item 5-B of September 2011
IAASB meeting, Proposed ISA 720
(Revised) dated September 2011 (Marked
from March 2011 IAASB Meeting)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6368

Agenda Item 5-C of September 2011
IAASB meeting, Proposed ISA 720
(Revised) dated September 2011 (Clean)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6369

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

Agenda Item 5-D of September 2011
IAASB meeting, Proposed Consequential
Amendments to ISA 260 dated September
2011 (Marked from Extant ISA 260)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6370

Agenda Item 5-E of September 2011
IAASB meeting, Proposed Consequential
Amendments to ISA 700 dated September
2011 (Marked from Extant ISA 700)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6371

Agenda Item 5-F of September 2011
IAASB meeting, Proposed Conforming
Amendments dated September 2011
(Marked from Extant ISAs)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6372

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

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 Pronouncement (up to Exposure)	March 2010 September 2010 March 2011	March 2010 September 2010 March 2011
Exposure	September 2011	September 2011

CAG Discussions: Detailed References

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

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

	<p>BGPapers.php?MID=0211&ViewCat=1245</p> <p>See CAG meeting minutes (in Agenda Item N of the following): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following): http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item M of the following): http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364</p> <p>See CAG meeting minutes (in Agenda Item M of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094</p> <p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item O of the following): http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&ViewCat=1493</p> <p>See CAG meeting minutes (in Agenda Item O of the following): See draft March 2011 CAG meeting minutes at Agenda Item A. See report back on March 2011 CAG meeting in paragraph 5 of this CAG paper.</p>
Exposure	This serves as the final discussion of the project prior to its anticipated approval as an exposure draft by the IAASB.

IAASB CAG PAPER

Appendix 2

Options for Describing the Nature and Purpose of Documents that Are within the Scope of Proposed Revised ISA 720

OPTION A	OPTION B
<p>Definitions</p> <p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <ul style="list-style-type: none"> a. Contains audited financial statements and the auditor’s report thereon; or b. Is prepared to accompany audited financial statements and the auditor’s report thereon, and: <ul style="list-style-type: none"> i. Has a primary purpose of providing commentary to enhance the intended users’ understanding of the entity and its environment; and ii. Its subject matter is within the auditor’s understanding of the entity and its environment acquired during the course of the audit. 	<p>Definitions</p> <p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <ul style="list-style-type: none"> a. Contains audited financial statements and the auditor’s report thereon; or b. Is prepared to accompany audited financial statements and the auditor’s report thereon, and has a primary purpose of providing commentary to enhance the intended users’ understanding of the audited financial statements and the financial reporting process.
<p>Application and Other Explanatory Material</p> <p>A10. The subject matter of a document accompanying the audited financial statements and the auditor’s report thereon is essential to determining whether or not the document is within the scope of this ISA. Where the document has a primary purpose of providing commentary to enhance the intended users’ understanding of the entity and its environment, and its subject matter is within the auditor’s understanding of the entity and its environment acquired during the course of the audit, such a document would generally be within the scope of this ISA. Examples include the following:</p>	<p>Application and Other Explanatory Material</p> <p>A10. The subject matter of a document accompanying the audited financial statements and the auditor’s report thereon is essential to determining whether or not the document is within the scope of this ISA. Where a document has a primary purpose of providing commentary to enhance the intended users’ understanding of audited financial statements and the financial reporting process, such a document would generally be within the scope of this ISA. Examples include the following:</p>

IAASB CAG PAPER

IAASB CAG Agenda (September 2011)

Agenda Item G.1

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon —ISA 720—Report Back and Issues and Task Force Proposals

<ul style="list-style-type: none"> • Management's discussion and analysis (or management report or operating and financial review) • Directors' report • Corporate governance statement • Internal control and risk assessment reports <p>A10a. Documents such as sustainability and corporate social responsibility reports may be within or outside of the scope of this ISA depending on their contents.</p> <p>A10b. Where a document only addresses other subject matters it is more likely that the document would be outside of the scope of this ISA because the information in these documents often extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. Examples include documents prepared and issued by the entity on the following:</p> <ul style="list-style-type: none"> • Diversity and equal opportunity • Product responsibility • Labor practices and working conditions • Human rights 	<ul style="list-style-type: none"> • Management's discussion and analysis (or management report or operating and financial review) • Directors' report • Corporate governance statement • Internal control and risk assessment reports <p>A10a. Documents that are generally considered to be outside the scope of this ISA are those whose primary purpose extends beyond the audited financial statements and the financial reporting process. Examples include documents prepared and issued by the entity on the following:</p> <ul style="list-style-type: none"> • Sustainability and corporate social responsibility • Diversity and equal opportunity • Product responsibility • Labor practices and working conditions • Human rights
--	---