

## Auditor Reporting—Other Information

### I. Objective

1. To consider the preferred option identified by the Task Force to enhance the communicative value of the auditor's report in relation to other information in documents containing audited financial statements (OI).

### II. Options Considered by Task Force

2. The Task Force has considered the following four possible options to enhance auditor reporting in relation to OI:

Option	Nature of Option
1	To require the inclusion in the auditor's report of a generic description of the auditor's responsibilities under extant ISA 720 <sup>1</sup> regarding OI.
2	To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 720, in addition to a generic description of the responsibilities of the auditor regarding OI.
3	To require the provision of auditor commentary regarding the auditor's work on OI.
4	To require the auditor to express an opinion on the OI.

3. Of these, the Task Force favors **Option 2** as offering the most promise from a value/impediments perspective. The Task Force has discussed the form of the conclusion and notes that a tension exists between adhering rigidly to the IAASB's Assurance Framework and accommodating likely changes in the work effort required by planned revisions to ISA 720.
4. Appendix 1 sets out the Task Force's analysis of Option 2. For purposes of discussion, Section III below provides illustrative wording for inclusion in the auditor's report under this option.
5. Appendix 2 summarizes the Task Force's consideration of Options 1, 3 and 4, including why the Task Force does not favor them from a value/impediments perspective.

### III. Illustrative Wording

#### ***Option 2: Description of the Auditor's Responsibilities + Auditor's Conclusion***

6. The Task Force has developed the following suggested wording to illustrate how Option 2 could be operationalized:

#### **Other Information**

*As part of our audit, we have read [the Chairman's Statement, the Business Review and other information included with the audited financial statements in the annual report for the*

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<sup>1</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

*year ended December 31, 20X1 [or clearly identify other specific document read]], which are the responsibility of the Company's directors and management. We have not audited this other information and accordingly do not express an opinion on it. However, on the basis of this limited work, we are not aware of any material inconsistencies between this other information and the audited financial statements.*

7. The Task Force recognizes that the proposed wording for the conclusion above may suggest that the underlying work effort is sufficient to achieve limited assurance. The Task Force agreed that such work effort is not currently supported by extant ISA 720. However, the Task Force was of the view that as work on revising ISA 720 progresses, there may be sufficient evolution in the work effort required to actually support such a conclusion. The Task Force agreed that it will be necessary for any proposal not to preclude such evolution within the revised ISA 720, and that developments in the project to revise ISA 720 should be closely monitored.<sup>2</sup>

#### **IV. Scope of Application**

8. Other information is often not published alongside the financial statements of many smaller entities and it seems unnecessary to mandate an irrelevant conclusion in the auditor's report. The Task Force therefore favors some flexibility and has tentatively concluded that this option should apply only to audits of listed entities.

#### **Matters for IAASB Consideration**

1. The IAASB is asked:
  - (a) To consider the Task Force's preferred option above and the related analysis presented in Appendix 1;
  - (b) Whether it agrees that this option should be further pursued by the Task Force for purposes of developing proposals on which to seek stakeholder input on consultation; and
  - (c) Subject to Board deliberation of the merits of Option 2, whether it agrees that this option should apply only to listed entity audits.

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<sup>2</sup> The Board's current work program anticipates approval of an exposure draft of the proposed revised ISA 720 in September 2012.

**Preferred Task Force Option**

**Option 2**

**A. Nature of Option**

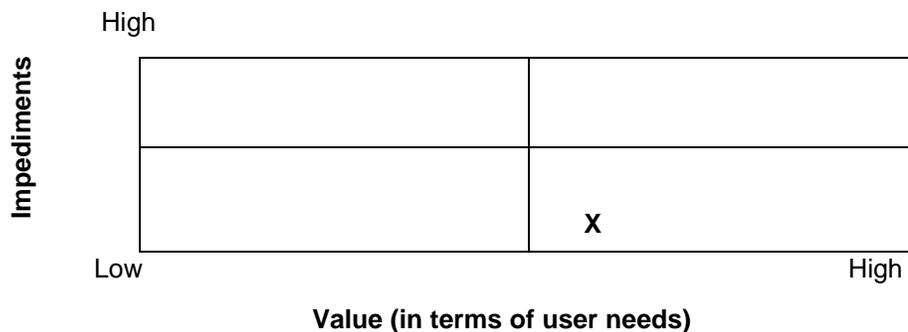
1. This option would require a conclusion in the auditor's report regarding the auditor's work under extant ISA 720, in addition to a generic description of the responsibilities of the auditor regarding OI.

The considerations below do not address the placement of such a conclusion within the auditor's report.

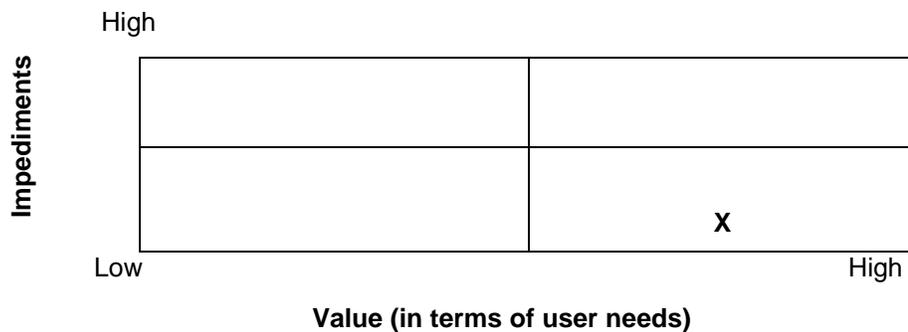
**B. Value/Impediments Model**

Two possibilities:

- (a) A conclusion as to whether the auditor has anything to report regarding the OI (see Option B below)



- (b) A conclusion under extant ISA 720 expressed in the negative form, and focused on consistency (see Option C below)



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<b>Value</b>			
1.	Does any proposed additional information to be included in the auditor's report enhance its communicative value (i.e., does it address the information gap)?	Yes	The value would come from an explicit conclusion expressed by the auditor.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	Through the description of the respective responsibilities of management and the auditor.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., "boilerplate"), language to the extent practicable based on the topic?	No	The wording of the conclusion would be prescribed by the ISAs.
<b>Impediments</b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	No	It would be a conclusion based on the work effort already required under extant ISA 720.
5.	Can the option be operationalized by auditors?	Yes	The conclusion would be based on the limited work performed (i.e., reading).
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's assurance role?	No	

## C. Evidence of Demand

### *Responses to May 2011 IAASB Consultation Paper<sup>3</sup>*

2. The Consultation Paper asked for respondents' views regarding whether there should be an explicit statement as to whether the auditor has anything to report with respect to the OI. The views expressed varied.
3. Of those respondents who commented on this question, about a half<sup>4</sup> (including some important stakeholders)<sup>5</sup> expressed support for such a conclusion, mainly on the grounds that this would provide greater clarity. To avoid the possibility that users would draw assurance from such a conclusion, some suggested making clear that no assurance is being provided on the OI.
4. However, about a third of the other respondents who commented on the question did not support requiring such a conclusion<sup>6</sup> for a number of reasons or they were of the view that the auditor should be required to report only by exception, consistent with the position under extant ISA 720.<sup>7</sup> The main reasons for opposing a specific conclusion were:
  - It would potentially confuse the auditor's primary objective in an audit. (JICPA)
  - It would be boilerplate. (ACCA)
  - It would change the underlying responsibility. (CPAA)
  - It would cause confusion when there were national responsibilities to report on some of the other information. (FSR)
  - It would be confusing to users, and could imply a level of assurance on the OI. (AUASB, AGSA)
  - The auditor's procedures under extant ISAs are limited in that regard. (BDO)

### *EC Proposals*

5. Article 22.2 of the EC's proposed regulation requires the auditor's report to:
  - (c) Explain, where additional reports have been reviewed, the scope of such review; and
  - (v) *Give an opinion concerning the consistency or otherwise of the annual report with the annual financial statements for the same fiscal year.*

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<sup>3</sup> *Enhancing The Value Of Auditor Reporting: Exploring Options For Change*

<sup>4</sup> AASB-MIA, APB, CAASB, CB, CGAC, CM, EYG, FAOA, H3C, ICAEW, ICAM, ICAP, ICPAR, IIA, NAO, NYSSCPA, NZAASB, SAICA, ZICA (for the detailed names of the respondents, see the list of respondents to the consultation paper in Appendix 1 to the Summary of Significant Consultation Paper Responses for the December 2011 IAASB meeting: [http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Agenda\\_Item\\_5-B-Auditor\\_Reporting\\_Issues\\_Paper-v1-03%20\(3\).pdf](http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Agenda_Item_5-B-Auditor_Reporting_Issues_Paper-v1-03%20(3).pdf))

<sup>5</sup> AGQ, CAQ, EFAA, HEOS, IAIS

<sup>6</sup> ACCA, AGSA, AUASB, BDO, CPAA, JICPA, LADM, PP

<sup>7</sup> ASSIREVI, DFSA, ENMAX, EUMEDION, FEE, FSR, ICGN, IDW, KPMG, PWC, RSM

**D. Possible Wording Options for the Auditor’s Conclusion**

6. A few possibilities are available for consideration regarding the conclusion.

(a) Option A: Reporting by Exception

Extant ISA 720 already deals with reporting by exception. Accordingly, no changes to current practice would be required under this option.

(b) Option B: A Conclusion Regarding Whether the Auditor has Anything to Report

If the auditor has nothing to report, a simple statement to that effect:

We have nothing to report regarding the other information included in the annual report for the year ended December 31, 20X1 *[or clearly identify other document containing the OI and the financial statements]*.

If the auditor has something to report, this could bifurcate to Option A, i.e., reporting the exception.

(c) Option C: A Conclusion on Consistency

A simple statement along the following lines:

Based on this limited work, we are not aware of any material inconsistencies between this other information and the audited financial statements.

7. The Task Force tentatively agreed that Option C, being more specific, would be clearer than Option B.

8. The Task Force believes that under either Option B or C, a strong caveat would be necessary to make clear that the audit opinion does not cover the OI:

We have not audited this other information and accordingly we do not express an opinion on it.

**E. Other Information Issued after Auditor’s Report**

9. Based on the IAASB’s latest thinking on the proposed revised ISA 720, it is anticipated that the revised standard will address the matter of the auditor’s responsibilities regarding other information issued after the auditor’s report. This is an area where specific consideration may be needed within Option 2 once the revised standard is finalized.

**Appendix 2**

**Options Considered but Not Favored by the Task Force**

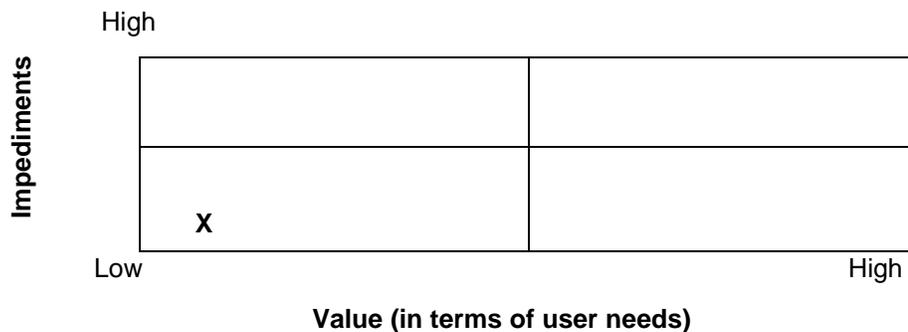
**Option 1**

**A. Nature of Option**

1. This option would require the inclusion in the auditor’s report of a generic description of the auditor’s responsibilities under extant ISA 720 regarding OI.

The considerations below do not address the location or placement of such wording within or outside of the auditor’s report on the presumption that this would be addressed by the Building Blocks Subcommittee.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<b>Value</b>			
1.	Does any proposed additional information to be included in the auditor’s report enhance its communicative value (i.e., does it address the information gap)?	Yes	But rather limited.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	A little.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., “boilerplate”), language to the extent practicable	No	A generic description will be boilerplate by definition.

#	Guideline	Yes/No	Comments
	based on the topic?		
<b><i>Impediments</i></b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	No	
5.	Can the option be operationalized by auditors?	Yes	Wording would be prescribed by the ISAs.
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's assurance role?	No	

### C. Evidence of Demand

#### *Responses to May 2011 IAASB Consultation Paper*

2. The Consultation Paper specifically asked for respondents' views as to whether there would be benefit in including a statement about the auditor's responsibilities regarding OI. The overwhelming majority of respondents<sup>8</sup> who addressed this question (including those investors who responded to the CP) expressed support for doing so, mainly on the grounds that this would increase transparency about the work the auditor performed on the OI (and thus help bridge the expectations gap), or is already local practice.
3. Some respondents,<sup>9</sup> however, did not support this proposal, on the grounds that:
  - It would add to the length of the report for minimal benefit. (ACAG, BT)
  - Users may draw more assurance on the OI than the auditor's work actually would support. (KICPA)
  - It would unduly emphasize one aspect of the audit as the expense of others.
  - The audit report should clearly communicate what has been audited. (ACAG, PP)

#### *EC Proposals*

4. Article 22.2 of the EC's proposed regulation requires the auditor's report to:
  - (c) *Explain, where additional reports have been reviewed, the scope of such review, and*
  - (v) Give an opinion concerning the consistency or otherwise of the annual report with the annual financial statements for the same fiscal year.

<sup>8</sup> ACCA, AGQ, AGSA, AICD, AICPA, APB, ASSIREVI, AUASB, BDO, BR, CAASB, CAQ, CB, CFA, CGAC, CHA, CM, CNCC-COEC, CNRL, CAAA, CPAB, DFSA, DTT, EFAA, ENMAX, ESMA, EUMEDION, EYG, FAOA, FEI-C, FEE, FI, FSR, GAO, GTI, HEOS, HKICPA, IAIS, ICAEW, ICAC, ICAM, ICAP, ICAS, ICPAR, IDW, IIA, KPMG, JICPA, LADM, MAZARS, NAO, NBA, NYSSCPA, NZAASB, PWC, RM, RSM, SAICA, SMPC, ZICA

<sup>9</sup> ACAG, AGNZ, Baker Tilly, NBA, KICPA, PP

**D. Possible Wordings – Auditor’s Responsibilities**

5. Overall responsibility of the auditor based on the read required under extant ISA 720:

As part of our audit, we have read the other information included in the annual report for the year ended December 31, 20X1 *[or clearly identify other document containing the OI and the financial statements]*.<sup>10</sup>

6. Possible disclaimers:

- (a) With respect to responsibility for the other information

The other information is the responsibility of management and those charged with governance.

- (b) With respect to the fact that the audit opinion does not cover the OI

We have not audited this other information and accordingly do not express an opinion on it.

*Or, with a focus on work performed:*

Our audit work did not include performing procedures to obtain audit evidence regarding the proper preparation or fair presentation of the other information and, accordingly, we do not provide any assurance on that information.

- (c) With respect to OI for which the auditor already has a reporting responsibility under law, regulation or national professional standards

Our responsibility to read the other information as part of our audit does not extend to the Statement of Director’s Remuneration in the Annual Report for the year ended December 31, 20X1 *[or specify other relevant document]*, which is covered separately by our Report on Statement of Director’s Remuneration dated [Date] pursuant to the Companies Act 19X6.

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<sup>10</sup> Based on ISA 720, paragraph 6

### Option 3

#### A. Nature of Option

7. This option would require the provision of auditor commentary regarding the auditor's work on OI.

This option could be combined with Options 1 or 2.

The considerations below do not address the placement of such commentary within the auditor's report.

#### B. Value/Impediments Model

Impediments	High		X
	Low		
		Low	High

**Value (in terms of user needs)**

8. See discussion under auditor commentary (**Agenda Item 4-A**).
9. The Task Force generally did not support the provision of auditor commentary on OI on the ground that such insights could be confused with insights on the financial statements.

#### C. Evidence of Demand

*Responses to May 2011 IAASB Consultation Paper*

10. The Consultation Paper asked for respondents' views regarding whether there should be an explicit statement as to whether the auditor has anything to report with respect to the OI. In addition to the views summarized in in relation to Option 2 (see Appendix 1), there were a few respondents<sup>11</sup> who appeared to support the provision by the auditor of insights, or significant findings or "observations," regarding the work performed on OI.

#### D. Criteria for Auditor Commentary

11. The Auditor Commentary Subcommittee has tentatively agreed that having broad criteria for including auditor insights, linked to areas of audit emphasis, would allow the necessary flexibility for the auditor to tailor the commentary to the engagement-specific risks of material misstatement and the procedures designed to respond to those risks. See **Agenda Item 4-A** for further discussion of these criteria.

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<sup>11</sup> CFA, H3C

**E. Trigger Point for Auditor Commentary**

12. A key consideration for the provision of auditor commentary is determining when the trigger point for such insights would be reached. In the case of OI, such a trigger point would likely need to hinge on whether there was significant uncertainty as to whether an item in the OI was materially inconsistent with the financial statements or whether it was a material misstatement of fact.
13. With respect to financial items in the OI, this threshold will likely be high for an item that appears to be materially inconsistent with information in the financial statements, as the auditor will likely be able to readily determine whether the item is in fact consistent or inconsistent, given the factual nature of the work involved in comparing financial items. The threshold will likely be not applicable for an item in the OI that appears to be a material misstatement of fact.
14. With respect to non-financial items in the OI, e.g., qualitative assessments of performance made by management, substantial judgment may be called for in discerning subtle biases in how management has drafted or presented the non-financial information in order to determine whether it is materially inconsistent or represents a misstatement of fact.
15. ISA 720 does not specifically address circumstances where there is *significant uncertainty* as to whether an item in the OI is materially inconsistent with the financial statements. Without extending the scope of the audit or providing enhanced guidance, this option would therefore be very difficult to operationalize in practice with respect to material inconsistencies.
16. With respect to material misstatements of fact, ISA 720 does require the auditor to perform certain further procedures to resolve any apparent misstatements of fact.<sup>12</sup> These procedures include discussing the matter with management, and requesting management to consult with a qualified third party (e.g., the entity's legal counsel) and considering the advice received. Nevertheless, while the extant ISA 720 appears to guide the auditor in evaluating the trigger point relative to material misstatements of fact, a significant hurdle would remain in how this could be effectively operationalized given the significant degree of subjectivity that could be involved in evaluating apparent material misstatements of fact.

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<sup>12</sup> ISA 720, paragraphs 14-15

### Option 4

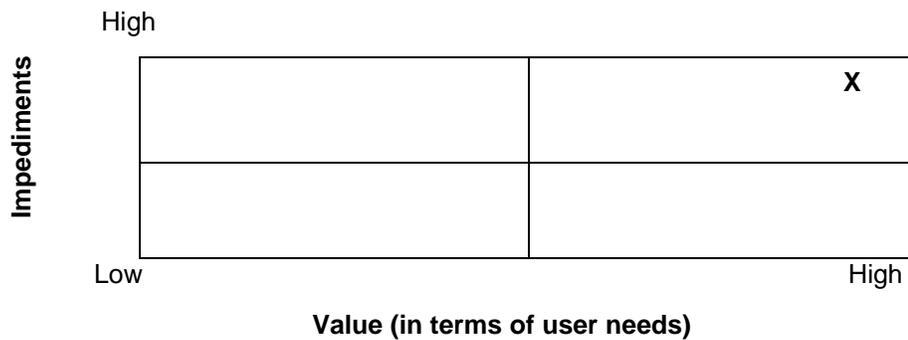
**A. Nature of Option**

17. This option would require the auditor to express an opinion on the OI.

This option could be combined with Option 1.

The considerations below do not address the placement of such an opinion within the auditor’s report if it were viable.

**B. Value/Impediments Model**



**Decision-Making Guidelines Scorecard**

#	Guideline	Yes/No	Comments
<i>Value</i>			
1.	Does any proposed additional information to be included in the auditor’s report enhance its communicative value (i.e., does it address the information gap)?	Yes	The value would come from an explicit opinion from the auditor.
2.	Does it enhance transparency about the audit, by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed (i.e., does it narrow the expectations gap)?	Yes	This assumes the auditor’s report would include descriptions of the respective responsibilities of management and the auditor.
3.	Does the option provide appropriately tailored, rather than additional technical and standardized (i.e., “boilerplate”), language to the extent practicable based on the	No	The wording of the opinion would be prescribed by professional standards.

#	Guideline	Yes/No	Comments
	topic?		
<b>Impediments</b>			
4.	Does the proposed action go beyond the current scope of the audit? If so, at what cost and to what extent would changes to other ISAs be needed?	Yes	Opining on the OI is not currently an objective of the audit.  The work involved to support such an opinion would require work beyond the current scope of the ISAs. Further, such work would likely need to be performed under the ISAE 3000 <sup>13</sup> umbrella.
5.	Can the option be operationalized by auditors?	Yes	Subject to the availability of suitable criteria.
6.	Does the option raise questions about management's primary responsibility for the financial statements and the auditor's assurance role?	No	The respective responsibilities of management and the auditor could be clearly set out in a separate assurance engagement.

### C. Evidence of Demand

#### *Responses to May 2011 IAASB Consultation Paper*

18. The Consultation Paper asked for respondents' views regarding whether there should be an explicit statement as to whether the auditor has anything to report with respect to the OI.
19. In addition to the views summarized in in relation to Option 2 (see Appendix 1), there were some respondents<sup>14</sup> who appeared to support explicit reporting by the auditor on the OI. A few suggestions were offered as follows:
- An opinion on whether the OI is true and fair or fairly presented.<sup>15</sup>
  - An opinion on management assertions in the OI.<sup>16</sup>
  - An opinion on whether the OI and the financial statements agree.<sup>17</sup>
20. A respondent<sup>18</sup> also noted that in its jurisdiction, auditors already are able to audit MD&A against established criteria.

<sup>13</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>14</sup> BM, ICAC, ICAP, ICPAR, MAZARS

<sup>15</sup> ICAP

<sup>16</sup> ICPAR

<sup>17</sup> ICAC

<sup>18</sup> BM

**D. What Type of Assurance Might Be Provided on OI, and What Work Would It Involve?**

21. Whether assurance work can be performed on OI, and the form of conclusion or opinion that can be expressed, will clearly depend on the availability of suitable criteria and the nature of the OI.
22. However, in the light of the responses to the CP, the level of market demand for this option appears to be very low. A number of significant additional impediments exist, for example:
  - National requirements or practices regarding the nature and extent of OI that entities provide will likely vary widely.
  - There may already be existing legal or regulatory requirements for reporting on specific types of OI at the national level.
  - Unlike financial statements, OI may be much more qualitative and forward-looking in nature e.g., management's discussion of performance and outlook for the upcoming period.
  - Consistent criteria will unlikely be available internationally.
  - OI may involve matters for which auditors may not have the necessary expertise or competence to evaluate, e.g., geologic assessments or estimates of reserves of natural resources.