

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8, 2013

Agenda Item E.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

Objectives of Agenda Item

1. The objective of this Agenda Item is to provide a report back to the Representatives on their comments and questions on the proposed ISA 720 (Revised)¹ as discussed at the September 2012 CAG Meeting.

Project Status and Timeline

2. At the September 2012 IAASB meeting, the IAASB considered the remaining significant issues and approved proposed ISA 720 (Revised) for exposure (ED-720), along with proposed consequential and conforming amendments to ISA 260,² 450³ and 700,⁴ and the Glossary of Terms. ED-720 was released on November 14, 2012 and the comment period ended on March 14, 2013.
3. Appendix 1 of this paper provides a project history, including links to the relevant CAG documentation.

September 2012 CAG Discussion

4. Below are extracts from the draft minutes of the September 2012 CAG meeting,⁵ 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*

³ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁴ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

⁵ The minutes will be approved at the April 2013 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
SCOPE OF ISA 720	
Messrs. Hansen, Koktvedgaard and Waldron supported the approach taken.	Support noted.
Mmes. Blomme and Lang noted that the definition of "other information" (OI) includes a reference to a document that is within the scope of the ISA, but what is within the scope of the ISA is not clear from the introductory section of the ISA.	<p>Points taken into account.</p> <p>Mr. Gélard responded that the Task Force found that the option of scoping the ISA by prescribing a list of documents was not practical due to the range of documents around the world. He explained that, because of this practical difficulty, the Task Force has proposed a conceptual approach to the scope of the ISA.</p> <p>At its September 2012 meeting, the IAASB agreed that clarity was needed on the circumstances when documents would be within scope of the proposed ISA. In particular, the IAASB agreed that the features of documents within scope of the ED-720 should be moved from the introductory section and linked to the definition of OI. Accordingly, the IAASB agreed to clarify that the definition of OI includes financial and non-financial information in a document that is issued by the entity in connection with the initial release, and that: (a) contains the audited financial statements and the auditor's report thereon; or (b) accompanies the audited financial statements and the auditor's report thereon and has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or the financial reporting process.</p>
Ms. Lang added that auditors of small not-for-profit entities may find it hard to determine which documents are scoped in.	<p>Point taken into account.</p> <p>The IAASB agreed that further clarification was needed with respect to the criterion (initial release and intended user) for determining which documents would be within scope of ED-720. Recognizing that the audited financial statements may be issued to users through one or more means, and these releases may not all be on the</p>

Representatives' Comments	Task Force/IAASB Response
	<p>same date, the IAASB concluded that the concept of initial release should be defined as occurring when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared (which will often be the entity's shareholders).</p> <p>The IAASB also concluded that greater clarity was needed as to who the "intended users" are as there may be different types of users, for example, a regulatory authority to whom the audited financial statements are first released and the entity's shareholders to whom the financial statements are subsequently released.</p>
<p>Ms. Blomme did not support all material in the annual report being OI, as she highlighted that some OI therein is far removed from the content of the audited financial statements and, accordingly, there is little value the auditor can bring. She also noted that the application material comprises mostly examples and asked whether all documents within the annual report should be considered to be OI.</p>	<p>Point noted.</p> <p>Mr. Gélard responded that the extant ISA 720 does not allow a selective reading of the annual report and that the ED-720 would continue to require all OI, even if seemingly less relevant, to be read in its entirety. However, the auditor's specific consideration would be focused on areas where auditor expects to have the relevant understanding obtained during the course of the audit.</p> <p>The IAASB reaffirmed its view that for any document, including the annual report, determined to be within the scope of the ED-720, all information within that document would be subject to the auditor's responsibilities under the ED-720 (even if the document contains certain information that does not meet the primary purpose of enhancing users' understanding of the audited financial statements or the financial reporting process). The ED-720 includes application guidance to explain the need for auditors to exercise professional judgment in determining which of the OI to focus the auditor's attention on, recognizing that not all the information may merit equal or additional consideration beyond reading the OI. The IAASB agreed to add explanatory material to the introductory section to highlight that</p>

Representatives' Comments	Task Force/IAASB Response
	the point noted above.
<p>Mr. Morris and Ms. Lang suggested that some of the application material be moved to the scope section, specifically the material that explains the types of OI that would normally be excluded if it is not in a document containing the financial statements.</p>	<p>Points taken into account.</p> <p>The IAASB concluded that the application material contains important guidance to the effect that, while documents in scope may include OI that extends beyond the auditor's understanding of the entity and its environment acquired during the audit, such OI is nevertheless within scope. Accordingly, such guidance has been moved from the application material to the introductory section of the ED-720.</p>
<p>Mr. Morris also noted that there is sometimes a delay between issuing the financial statements and issuing the annual report.</p>	<p>Pointed taken into account.</p> <p>As previously discussed, the IAASB concluded that the concept of initial release should be clarified and included as a defined term in the ED-720 as occurring when the audited financial statements and the auditor's report thereon for a reporting period are first made generally available to the group of users for whom the auditor's report is prepared (which will often be the entity's shareholders).</p> <p>ED-720 also includes application guidance to (a) illustrate the application of the concept; (b) explain that documents issued in connection with the initial release may not all be released to the users for whom the auditor's report is prepared on the same date as the initial release; and (c) explain that documents issued after the initial release are only treated as issued in connection with the initial release if the OI contained within them addresses the same reporting period as the audited financial statements.</p>
<p>Mr. Hemus asked if press releases were included within the scope of the proposed ISA. Mr. Peyret added that the French financial markets regulator had issued a report on discrepancies in press releases, particularly when the press releases did not conform to the information in the financial statements issued at a later date.</p>	<p>Messrs. Gélard and Montgomery noted that, whether press releases were included or excluded depended on the timing of the press release. Press releases accompanying earnings announcements that precede the issuance of the financial statements would be excluded.</p> <p>The IAASB agreed that for the avoidance of doubt,</p>

Representatives' Comments	Task Force/IAASB Response
	to include guidance in the ED-720 to explain that a press release issued in connection with the initial release is within scope, whereas a press release issued in connection with a preliminary announcement is out of scope.
Mr. Koktvedgaard explained that, in his view, the application material providing further guidance on the scope of the ISA did not clearly include or exclude management reports. In particular he noted that management reports may sometimes include corporate social responsibility (CSR) reports and human rights reports, which are otherwise not intended to be within the scope of ISA 720. Mr. White noted that the proposed scope of the ISA with respect to material like CSR reports that may or may not be part of the annual report is awkward, but that there did not seem to be an alternative.	Mr. Gélard responded that the proposed standard has a two-part test to determine if a document is within the scope of the standard, the tests being the timing of the document and its purpose. He added that if the primary purpose of the OI is providing commentary to enhance the intended users' understanding of the audited financial statements or the financial reporting process, the OI is within the scope of proposed ISA 720 (Revised). He also noted that, accordingly, human rights reports may therefore not be included as they are not created for this purpose.
Mr. Grund explained that he found the scope of the standard confusing, particularly as the application material appeared to exclude many types of documents. He also asked why there was not a requirement to check the consistency of the OI against the auditor's understanding thereof.	Mr. Gélard responded that the auditor does not have to audit the OI, but has to respond to identified material inconsistencies. Mr. Gunn noted that adding a link between the scope paragraphs and relevant application material, which addresses the extent of consideration needed, may assist in understanding the scope paragraphs. The IAASB reaffirmed its view that it would be impractical to specify within the scope of the ED-720 all documents that an entity may issue at or around the same time as the audited financial statements. The nature and range of documents accompanying the financial statements may vary. As a result, the IAASB believes it necessary to put parameters around the scope of to assist auditors in determining which documents accompanying the audited financial statements should be in or out of scope. Nonetheless, as previously discussed, the criteria for determining which documents would be within the scope of ED-720 has been clarified. Finally, the IAASB agreed to clarify the objective to indicate that the auditor has an obligation to

Representatives' Comments	Task Force/IAASB Response
	respond to appropriately when, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, the auditor identifies that there may be a material inconsistency in the OI, or the audited financial statements may be materially misstated.
Mr. Hansen noted that the material addressing securities offering documents should be clarified as it was confusing.	After further deliberations, the IAASB reaffirmed its view that the ED-720 should include securities offering documents in the limited circumstances when they meet the criteria for being within scope (e.g., initial release of the audited financial statements in an initial public offering). The IAASB agreed to clarify the application guidance relating to these limited circumstances, and concluded that the Explanatory Memorandum should specifically solicit respondents' views on whether the limiting circumstances in which a securities offering document would be within scope are appropriate.
Mr. Hemus asked if social media was included, and asked how far the auditor should go when social media results in a dialogue between the entity and investors.	The Task Force further deliberated the issue and agreed that appropriate guidance has been included in the application guidance. In particular, the application material notes that documents within the scope of the ISA may be made available in the form of printed hardcopy, or electronically, including by posting on the entity's website. Although the auditor is not expected to search social media websites for documents that are within the scope of the ISA, a document that meets the criteria set out in the definition section of the proposed revised ISA is within the scope of the ISA, irrespective of the manner in which it is made available to users.
Mr. Koktvedgaard suggested that the Task Force contact Dr. Al Zaabi, as he had previously noted concerns with respect to the application of proposed ISA 720 (Revised) on Sharia reporting.	The Task Force notes 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.

Representatives' Comments	Task Force/IAASB Response
NATURE AND EXTENT OF WORK EFFORT WHEN READING AND CONSIDERING OI	
Messrs. Bluhm, Koktvedgaard, and Ratnayake supported the Task Force's proposed principles-based approach. Mr. Koktvedgaard noted that the alternative approach would lead to too many detailed requirements.	Support noted.
Mr. Grund added that he further found the proposed standard confusing in addressing the differing work efforts depending on the type of OI.	Point taken into account. The IAASB agreed to provide a clear link between the expectations of the auditor for reading the OI, and the related work effort. For example, the introductory section includes explanatory material describing the auditor's responsibility for reading all information included in documents within the scope of the ED-720, while, as the auditor is not expected to have an understanding of all the information included in documents within the scope of ED-720, the auditor may focus on those items about which the auditor expects to have relevant understanding obtained during the audit. Application material to assist in determining where to focus the auditor's attention has been clarified.
Mr. White was of the view that the application material describing when the OI may be inconsistent should be part of the requirements.	The IAASB agreed that it was important to establish a definition of an inconsistency in the OI that specifies circumstances when an inconsistency would exist in the OI, and consideration of when such inconsistencies would be material. Accordingly, the IAASB agreed to move the description of an inconsistency from the application guidance and include in the ED-720 a definition of an "inconsistency in the OI" that specifies that such an inconsistency would exist when the OI contains information that is incorrect, unreasonable or inappropriate; or is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the OI.
Mr. Bluhm suggested that the proposed standard include material on the documentation of the	Point taken into account.

Representatives' Comments	Task Force/IAASB Response
auditor's work effort.	The IAASB agreed that the documentation guidance should be clarified and linked to the requirements in ISA 230 ⁶ for the auditor to record the identifying characteristics of the specific items or matters tested.
Mr. Koktvedgaard suggested that it may be more appropriate for the auditor to obtain the required reconciliation from the "company," rather than from "management."	Point not accepted. The term "management" is used throughout the ISAs to refer to the person(s) with executive responsibility for the conduct of the entity's operations. Therefore, the Task Force believes it is appropriate for the ED-720 to require that the auditor obtains the reconciliation of directly reconcilable information from management rather than from the company.
Mr. Baumann noted that the term "material inconsistency" is used throughout the standard, and that it should be clarified early in the standard that the term is intended to address both an inconsistency with the auditor's understanding of the entity and its environment, as well as an inconsistency with the financial statements.	Point taken into account. Mr. Gélard explained that the Task Force had tried different words to separate the two concepts but found it was impracticable. The IAASB concluded it was necessary to make clear the basis on which an inconsistency would be identified. As such, the IAASB that the objectives in ED-720 should be clarified to indicate that the auditor's obligation is to respond appropriately when in light of the auditor's understanding of the entity and its environment acquired during the audit, identifies that (a) there may be a material inconsistency in the OI or (b) the audited financial statements may be materially misstated.
Mr. Kuramochi asked if the auditors' workload would be significantly increased under the proposed ISA 720 (Revised).	Mr. Gélard noted that an increase in workload depends on the circumstances of an entity and also on how extant ISA 720 is currently applied in practice. Nevertheless, an increase in work effort is anticipated. The Explanatory Memorandum to ED-720 asks respondents' views about whether the work effort in

⁶ ISA 230, *Audit Documentation*

Representatives' Comments	Task Force/IAASB Response
	ED-720 would extend the scope of an audit beyond that necessary for the auditor to express an opinion on the financial statements.
Mr. Kuramochi expressed concern about the work effort for "remaining OI," noting that the work effort for this category was vague and may create an additional expectation gap with users. He also noted that including this category may direct the auditor's attention away from the financial statements and therefore the work effort on this category should be clear so that AQ is maintained.	<p>Point taken into account.</p> <p>The IAASB agreed that the nature and extent of the auditor's work effort with respect to the remaining OI should be limited to sources that have been derived from the entity's accounting records that were subject to the audit. The application guidance on agreeing significant items in management's analysis to the audit documentation or "other appropriate sources" has been replaced with a consideration of significant items within the analysis in light of the auditor's understanding of the entity and its environment as reflected in the audit documentation.</p> <p>The Explanatory Memorandum to ED-720 solicits respondents' views on the approach taken regarding the nature and extent of the auditor's work effort with respect to the OI.</p>
REPORTING ON OI	
Ms. Blomme noted that proposed reporting requirement did not explain the different work efforts that may be involved, and encouraged the Task Force to consider whether in fact it should. She also noted that coordination between the direction with regard to the material in the ITC and the direction in the final ISA 720 will be important.	<p>Points taken into account.</p> <p>The IAASB agreed that the reporting requirement should include a statement describing the auditor's responsibilities with respect to the OI. For avoidance of doubt about the extent of the auditor's responsibilities for the OI, the IAASB also agreed that it was important to make it clear in the auditor's report that the auditor has not audited or reviewed the OI and accordingly does not express an audit opinion or a review conclusion on it.</p> <p>The IAASB also agreed to signal in the Explanatory Memorandum that reporting obligation in the exposure draft has evolved from that originally set out in the ITC based on the expanded scope and objective of proposed ISA 720 (Revised). In particular, the Explanatory Memorandum notes that the illustrative wording in the proposed ISA is</p>

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Representatives' Comments	Task Force/IAASB Response
	intended to replace what was presented in the illustrative report in the ITC.

Appendix 1

Project History

Project: 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*

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 September 2011 - March 2012 (project update)	March 2010 September 2010 March 2011 September 2011 December 2011 -
Exposure	September 2012	September 2012

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-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): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf</p> <p>See report back on March 2011 CAG meeting (in paragraph 5 of the following) http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</p> <p><u>September 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</p> <p>See CAG meeting minutes (in Agenda Item F of the following): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItemA-Draft-September-2011-Public-Minutes-Marked-v3.pdf</p> <p>See report back on March September 2011 CAG meeting (in paragraph 5 of this CAG paper.</p> <p><u>March 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Item C of the following): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItemE6-ProjectUpdates-v2.pdf</p> <p><u>September 2012</u></p>
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	<p>See IAASB CAG meeting material: (in Agenda Item E6 of the following): http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf</p> <p>See CAG meeting minutes (in Agenda Item C of the following):</p> <p>See draft minutes included as Agenda Item A of the April 2013 CAG Meeting.</p> <p>See report back on September 2012 CAG meeting in Paragraph 4 of this CAG paper.</p>
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