

Other Information—Issues and IAASB Task Force Proposals

Outline of Responses Received

1. The comment period for the Exposure Draft of proposed ISA 720 (Revised)¹ (ED-720) closed on March 14, 2013. Seventy-four (74) comment letters were received. A detailed respondent list is included in Appendix 1, and all responses can be accessed from the IAASB's website at www.ifac.org/publications-resources/international-standard-auditing-isa-720-revised-auditor-s-responsibilities-re.
2. Comment letters were received from the following stakeholder groups:

Stakeholder Group	Number	Percentage
Investors and Analysts	3	4%
Regulators and Audit Oversight Bodies	9	12%
Those Charged with Governance (TCWG)	2	3%
National Auditing Standard Setters (NSS)	5	7%
Accounting Firms	12	16%
Public Sector Auditors	6	8%
Preparers	1	1%
Member Bodies and Other Professional Organizations	30	41%
Academics	1	1%
Individuals and Others	5	7%
Total	74	100%

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*

3. The geographic coverage of responses is shown below:

Geographic Region	Number	Percentage
Organizations with a Global Mandate	15	20%
Asia Pacific	17	23%
Europe	27	36%
Middle East/Africa	3	4%
North America	10	14%
South America	2	3%
Total	74	100%

Overall Comments Received

4. Overall, respondents supported the IAASB’s intention of strengthening the auditor’s responsibilities with respect to Other Information. There was also general support for the IAASB doing so through exploring changes to broaden the scope of the documents covered by ISA 720, broaden the responsibilities of the auditor to consider inconsistencies with their knowledge based on the audit (not just inconsistencies with the financial statements), and increase the transparency of the auditor’s work on Other Information via the auditor’s report.
5. For example, a respondent noted that ED-720 was a “timely recognition of the shifts in corporate reporting towards, for example qualitative disclosures, and the calls, particularly from investors, for more informative reporting by auditors.”² Another respondent highlighted that “users have greater interest in, and are placing more importance on, other information, which varies in terms of nature and extent; therefore, it is in the public interest to consider ISA 720 in context of the current environment”.³
6. Investors, public sector organizations and individual respondents in particular were broadly supportive of the proposals as drafted in ED-720. However, some of these, and many respondents across the other stakeholder groups, raised concerns about the way that the IAASB had articulated the specific proposals in ED-720. These concerns ranged from the view that the proposals did not go far enough, to the view that they went too far.⁴
7. Wherever in this range those concerns were, they led those respondents to believe that the specific proposals would be difficult to operationalize in practice. By way of example, a regulatory respondent noted that “further consideration is needed to provide for a more robust standard that is practical for auditors and enforceable by regulators”⁵—a sentiment

² ACCA

³ EYG

⁴ See, for example, the range of comments by Eumedion, DTT, HEOS, HQ, KI, and KPMG referenced in paragraph 22.

⁵ IOSCO

shared to varying degrees by other regulatory respondents⁶ and by some from other respondents.⁷ Other respondents raised similar operational issues, but were more concerned that the articulation of the proposals would leave auditors with too broad a range of possible interpretations that could create unreasonably demanding expectations of them among users.

8. A few⁸ respondents disagreed with the IAASB's intentions in revising ISA 720 and the specific proposals included in ED-720. Some of these respondents' more specific comments included the view that:
 - Extant ISA 720 was adequate;⁹
 - User needs for assurance on Other Information would not be met by ED-720¹⁰.
 - The proposals are a fundamental departure from the extant ISA 720 that go significantly beyond the extant objective of ensuring that Other Information that appears to be materially inconsistent with the financial statements did not undermine the credibility of the auditor's report.¹¹
9. The Task Force notes that the range of views on ED-720 will make it difficult to find solutions that will satisfy all respondents.

Heat Map

10. ED-720 included questions for respondents to help draw out comments on key areas within ED-720. A "heat map" indicating the degree of support or otherwise for the IAASB's proposals in these key areas is included in **Appendix 2**.

Structure of this Paper

11. The Task Force has not yet deliberated all issues raised by respondents, on ED-720. This paper presents only the following key areas as follows:
 - (a) Scope of documents covered by ED-720 (**Section A** below); and
 - (b) Expansion of the work effort beyond "reading" the Other Information (**Section B** below).

The final section of the paper (**Section C**) deals with the specific matter of treatment of securities offering documents, which the Task Force has discussed in the course of addressing the above areas.

12. Matters not discussed yet by the Task Force include:
 - Revision, if necessary, of the Objectives stated in the ISA;

⁶ See, for example, IAIS, CPAB.

⁷ See, for example, AICD, SAICA, EFAA and AAA.

⁸ BT, HQ, ICAA, ICPAS, IDW, MNP, PP.

⁹ ICPAS

¹⁰ See, for example, ICAA.

¹¹ IDW

- Whether electronic dissemination of documents have been appropriately addressed;
- Further aspects of the auditor's work effort, including related application material; and
- The auditor's reporting obligations.

Significant Issues and Task Force Recommendations

A. Scope of Documents Covered by ED-720

Background

13. ED-720 expanded the definition of Other Information to include not only documents that contain, but also certain documents that accompany, the audited financial statements and the auditor's report thereon. Recognizing that it would be necessary to put parameters around this expansion of scope, the IAASB specified two criteria to determine if a document was in scope.
14. Firstly, all documents within the scope of ED-720 would need to be issued by the entity "in connection with the initial release" of the audited financial statements (see **paragraphs 9(b) and 9(c) of Agenda item 5.2**). This test was intended to limit the time period during which documents could be produced and be in scope by requiring in-scope documents to be connected with the first release of the audited financial statements and audit report to users.
15. Secondly, ED-720 limited the scope of documents covered by requiring in-scope accompanying documents to have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process (see **paragraph 9(c) of Agenda Item 5.2**). This test was intended to narrow the types of accompanying documents to those containing other information that was likely to be within the knowledge of the auditor, and more likely to help the auditor determine which accompanying documents are more likely to have been issued in connection with the initial release.
16. ED-720 also included application material to aid auditors in applying the concepts behind these two criteria given a range of different regulatory regimes around the world. For example, ED-720 include guidance explaining that initial release may occur when the audited financial statements are distributed for a general meeting of shareholders or when they are filed with a regulator or securities exchange.

Respondents' Comments

Comments on the Concept of Initial Release

17. Some stakeholder groups, such as investors and public sector auditors, broadly supported the use of the concept of "initial release." For example, a respondent noted that the proposals, including the use of the term "initial release," to broaden the scope of

documents covered by ISA 720 better reflected of the reality and the practices of the entities and the practical situation in various countries.¹²

18. Some regulators, however, expressed concern about the concept, noting, for example that:
- It may be difficult to interpret,¹³ for example, in jurisdictions where multiple financial statements and auditor’s report are prepared under different requirements (such as dual-listed companies, who may have more than one “initial release”).¹⁴
 - It may create incentives for entities “to structure their reporting to either exclude some other information from the scope of the standard or to time the release of other information so that it is not covered by a statement in the auditor’s report.”¹⁵
19. Other regulators supported the concept¹⁶ but noted that it would require considerable auditor judgment in some circumstances and may lead to inconsistent application.¹⁷
20. In a broad sense, other stakeholder groups such as firms, NSS, and IFAC Member Bodies shared similar concerns about the proposed concept of “initial release.” For example, comments included that:

Overall Matters

- It would be difficult to interpret in practice and may lead to inconsistent application.¹⁸
- The application material is not particularly helpful;¹⁹ it should be expanded to explain what may be a reasonable period of time for the auditor’s responsibility regarding Other Information,²⁰ and it should illustrate common examples of Other Information that would be included or excluded.²¹

Scope Matters

- The concept of “initial release” may not be broad enough to capture all documents upon which users will rely.²²
- NSS should be encouraged to more precisely define what documents would be in scope for their jurisdiction.²³

¹² CNCC/CSOEC

¹³ EAIG, CPAB, ICAC, IOSCO, MAOB

¹⁴ IOSCO

¹⁵ IAIS. See also AAA, MNP.

¹⁶ IAIS, UKFRC

¹⁷ UKFRC,

¹⁸ AICPA, ANOORALI, ASSIREVI, AUASB, BDO, BT, CAASB, DTT, EAIG, EYG, FEE, GAO, HQ, ICAC, ICAEW, ICPAS, IDW, IIA, IPAR, IRE-IBR, JICPA, NBA, NYSSCPA, PWC, RCA, SAICA

¹⁹ See HQ and PWC for example.

²⁰ KPMG

²¹ IRBA, KPMG

²² WPK

²³ FRC

- The expansion of the scope of documents covered may clash with local law or regulation.²⁴
- The IAASB should not impose obligations on the auditor with respect to Other Information obtained after the date of the auditor's report.²⁵

Other Matters

- The concept of “initial release” may be confused with ‘the date the financial statements are issued’ in ISA 560²⁶ by auditors or users.²⁷ and
- The definition does not accord with the ordinary meaning of the term “initial” as it extends past the date the financial statements were issued.²⁸

Comments on Limiting the Scope of Accompanying Documents by Reference to Their Purpose

21. Investors, individuals, and public sector auditor respondents broadly supported the expansion of the scope to include documents accompanying the audited financial statements, and which have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements or the financial reporting process.
22. Regulators, firms, NSS and preparer respondents had more mixed views.²⁹ Supporters of the position adopted in ED-720 noted that this change recognized that financial reporting had evolved and involved more than just the issuance of an annual report.³⁰ However, there was a wide diversity of views expressed on a range of topic related to the ‘purpose’ of the Other Information. Views included:

Overall Matters

- Further development or clarification of the principles of ISA 720 is needed to permit consistent application to a variety of circumstances,³¹ particularly given that the current proposals may be seen as impractical.³²
- The definition would lead to inconsistent application in practice or widen the expectations gap.³³

²⁴ ICJCE

²⁵ DTT, BDO, CAQ, GTI, IDW, ICPAS, IRBA,

²⁶ ISA 560, *Subsequent Events*

²⁷ AUASB, GTI, HKICPA, ICAA, IRBA, KI, NZAUASB, PWC

²⁸ WK

²⁹ Respondents within these groups that did not support the changes included AICPA, FSR, ICAA, ICPAS, and ZICA.

³⁰ CBarnard, CNCC/CSOEC, EFAA, ICAS

³¹ IOSCO, EYG, PWC

³² BCBS, CPAB, DTT, EAIG, GTI, IAIS, KI, MAOB, RSM

³³ AICPA, ASSIREVI, AUASB, BCBS, CAQ, DTT, EFAA, FAR, FEE, HKICPA, ICAA, ICPAS, IRBA, IRE-IBR, JICPA, KI, MIA(Malaysia), NYSSCPA

Scope Matters

- The scope of ISA 720 should be expanded to include all documents that accompany the initial release of the audited financial statements.³⁴
- Further clarification of the boundaries of Other Information is needed.³⁵
- Further documents, particularly those specified by regulators, should be specifically scoped in.³⁶
- There may be a role for NSS in clarifying the scope of documents covered in each jurisdiction.³⁷
- The scope should be narrowed to documents containing commentary on the audited financial statements;³⁸ or should exclude documents relating to the financial reporting process.³⁹
- Agreeing with management what the Other Information comprises should be central to the requirement.⁴⁰
- Auditors may not be aware of all documents in scope.⁴¹
- Electronic media (such as websites, presentation slides and social media) should be specifically excluded⁴² or included⁴³ or otherwise addressed.⁴⁴

Other Matters

- Auditors may not have sufficient skills to identify material inconsistencies in certain types of Other Information.⁴⁵
- Management may not co-operate or may alter hyperlinked documents.⁴⁶ and
- Conforming amendments would be needed to ISA 580⁴⁷ to require the auditor to seek to obtain management representations regarding the Other Information.⁴⁸

³⁴ Eumedion, HEOS

³⁵ ACAG, ACCA, CAASB, FEE, GAO, IBRACON, IDW, MIA(Malta)

³⁶ BCBS, IAIS, EAIG

³⁷ CPAB

³⁸ DTT, HQ, KI

³⁹ KPMG

⁴⁰ DTT, KPMG

⁴¹ MNP

⁴² NAOUK

⁴³ ACCA, FEE

⁴⁴ IRBA, NZAUASB

⁴⁵ ASSIREVI

⁴⁶ AUASB, CNCC/CSOEC, FAR

⁴⁷ ISA 580, *Written Representations*

⁴⁸ DTT, IRBA

Task Force Proposals

23. The Task Force acknowledged the concerns of respondents who suggested that the scope of documents covered by ED-720 could be clarified and simplified. In particular, the Task Force noted a general consensus among the majority of respondents that the articulation of the scope of documents covered may lead to inconsistent understanding and application in practice.
24. To address the many concerns expressed in relation to the scope of documents covered by ED-720, the Task Force developed an alternative approach to describing which documents are in scope:
- Building on the approach in extant ISA 720, the Task Force focused on Annual Reports, and other document(s) that contain information similar to that typically contained in an Annual Report, as the concept upon which to base the definition of Other Information.
 - The Task Force also acknowledged the need for a ‘catch-all’ provision that would include other documents that are specifically agreed with management or those charged with governance.
25. The Task Force believes that this approach is consistent with the intent of ED-720, but would be easier for practitioners, regulators, users and other stakeholders both to understand and to communicate. This approach would not preclude national regulators or standard setters from specifying other documents that should be treated as containing information similar to that typically contained in an annual report.
26. To support this simplified approach, the Task Force recommends: (i) a revised definition of Other Information which is focused on Annual Reports; and (ii) the introduction of a definition of an Annual Report. The definitions are as follows:

Other information

Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in:

- (i) *An annual report or other document(s) that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains or accompanies the financial statements and the auditor’s report thereon;;*
or
- (ii) *Another document issued or made available to owners (or similar stakeholders) that the auditor has agreed with the entity to be read and reported upon in accordance with this ISA.*

An annual report or other document accompanies the financial statements when it is intended to be associated with, or is issued in connection with, the financial statements.

Annual Report

A comprehensive report on an entity's activities throughout the preceding year prepared by management and/or those charged with governance. The purpose of an annual report is to give equity owners and other stakeholders information about the company's activities, financial condition, outlook and risks. Most jurisdictions require certain entities, such as companies and entities listed on a stock exchange, to prepare and publicly disclose annual reports.—Annual reports comprise various elements, and often include management commentary, operating and financial review or similar reports by those charged with governance (for example, directors' report); a Chairman's statement; a corporate governance statement; an internal control report; and a risk assessment reports.

27. **Appendix 3** compares extant ISA 720, ED-720 and the Task Force proposals.
28. This approach does not require use of the term “initial release” which, as noted in paragraphs 18-21 above, many respondents found problematic. The Task Force have retained the concept of “accompanying” and noted that an annual report or other document accompanies the financial statements when it is intended to be associated with, or issued in connection with, the financial statements

Responsibility for Other Information Past the Date of the Auditor's Report

29. In relation to the comments received about ED-720 imposing an obligation beyond the date of the auditor's report, the Task Force notes that extant ISA 720 already requires that “if it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as is practicable.”⁴⁹ Accordingly, the proposals in ED-720 were not, in principle, an expansion in the auditor's responsibilities in this respect.
30. The Task Force recognizes that some of the concerns around the responsibility for Other Information in documents received after the date of the auditor's report arise because the expansion of the scope of the ISA to include accompanying documents may increase the number of such documents. The Task Force also recognizes that, given the introduction of reporting on Other Information in ED-720, there are concerns that differences in the relative timing of the dating of the auditor's report between individual audits may lead to inconsistency in the scope of Other Information referred to in the auditor's report. For example, Other Information for one entity, issued early in the reporting process, may be referred to in the auditor's report but would be omitted if issued later in the entity's reporting process.
31. Task Force believes it is in the public interest to require auditors to continue to have responsibility for Other Information issued after the date of the auditor's report, as this was the position in extant ISA 720. However, the Task Force has not yet considered the reporting implications of this in full and intends to deliberate this further.

⁴⁹ ISA 720, paragraph 7.

Matters for IAASB Consideration

1. Does the IAASB support the Task Force’s proposal to focus on Annual Reports or similar documents as the basis for a tighter and more understandable definition of Other Information?
2. What views does the IAASB hold on the proposed definitions of Other Information and Annual Reports?
3. Does the IAASB continue to support the Task Force view that it is in the public interest for the auditor to continue to have responsibilities for in-scope documents received after the date of the auditor’s report, subject to further deliberation by the Task Force of the implications thereof in relation to communications in the auditor’s report?

B. Expansion of the Work Effort Beyond “Reading” the Other Information

32. *Background*
33. ED-720 included a single, principle-based requirement (**paragraph 11 of Agenda Item 5.2**) to cover the auditor’s work effort in addressing Other Information:
 11. *The auditor shall read and consider the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit.*
34. This requirement was followed by required actions by the auditor if the auditor identifies that there may be a “material inconsistency” in the Other Information. Paragraph 12 of ED-720 and the associated definition of “inconsistency” are reproduced below.

Requirement

12. *If, based on reading and considering the other information, the auditor identifies that there may be a material inconsistency in the other information, the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether a material inconsistency in the other information does exist.*

Definition

Inconsistency in the other information – An inconsistency in the other information exists when the other information:

- (i) *Contains information that is incorrect, unreasonable or inappropriate; or*
- (ii) *Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.*

An inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor’s report is prepared taken on the basis of the audited financial statements and the other information as a whole.

Respondents' Comments

35. At a high level, investors and individuals were generally supportive of the proposals. For example, an investor respondent⁵⁰ supported the IAASB's aim to strengthen auditors' ability to identify if there may be material inconsistencies in the other information and, if so, to respond appropriately. In contrast, regulators and public sector auditors expressed concerns about these requirements,⁵¹ as did Firms, NSS and IFAC member bodies, as discussed below.
36. Concerns expressed included that the terms used in the work effort requirement, such as "read and consider" and "inconsistency in the other information" were too subjective and that the requirements and application material would not be sufficient to guide the auditor's work effort in a consistent manner.⁵² These concerns led respondents to believe that the changes would lead to divergence in practice. Some thought that this would create difficulty for auditors to challenge management and cause enforceability issues.⁵³
37. Others expressed concerns that these requirements and guidance would give rise to expectations amongst users that went too far, including that they were changing the scope of the audit.⁵⁴ Further, it was noted that the term "consider" was being used in a manner which required a more active work effort than was implied by the usage of the term in other ISAs (where it essentially means for the auditor "to apply his or her mind to the matter").⁵⁵ A few respondents also found the use of the word 'inconsistency' confusing because the natural meaning of inconsistency involves a comparison, which was not explicitly stated in ED-720.⁵⁶
38. It was also commented that the terms "inconsistency" and "material inconsistency" needed further clarification to be useful.⁵⁷ Further, a respondent suggested that the objective should be framed in terms of avoiding association with misleading information.⁵⁸
39. Respondents also commented on the phrase "in light of the auditor's understanding of the entity and its environment." While many respondents supported this phrase,⁵⁹ other respondents had significant concerns about the implications for the work effort or reporting. A few respondents found the phrase confusing.⁶⁰ Comments included:

⁵⁰ ICGN

⁵¹ See, for example IOSCO and IRBA

⁵² See, for example, EAIG, CPAB, ICAS, IOSCO, IRBA, MAOB, PWC, RSM.

⁵³ IOSCO

⁵⁴ JICPA

⁵⁵ ICAEW, IDW, PWC

⁵⁶ BT, ICAEW

⁵⁷ See, for example, ICAA, ICAEW, KPMG.

⁵⁸ IDW

⁵⁹ AGNZ, AICPA, ASSIREVI, AUASB, CAASB, CIPFA, CNCC/CSOEC (good quote), D. Juvenal, EFAA, EUMEDION, FAR, HEOS, ICAP, ICGN, IPAR, KI, KPMG, MIA (Malaysia), NZAUASB, RCA, RSM, Swedish NAO, WAO, ZICA

⁶⁰ GAO, HQ

Overall Matters

- The phrase is too broad or subjective to be capable of consistent implementation across a range of audits.⁶¹
- Referring to “understanding” rather than the audited financial statements expands the scope of the audit.⁶²
- Difficult to apply the auditor’s understanding to documents that are less closely related to the audited financial statements.⁶³
- Users will not understand the phrase when used in the auditor’s report.⁶⁴

Comments on the Terms Used in the Phrase “in light of the auditor’s understanding of the entity and its environment”

- Meaning of “auditor” should be clarified as it depends on who does the reading.⁶⁵
- The phrase should reference the audited financial statements,⁶⁶ refer to “based on” rather than “in light of”,⁶⁷ refer to the audited financial statements,⁶⁸ and/or refer to professional skepticism.⁶⁹
- All the auditor’s understanding should be applied, not just that acquired in the course of the audit.⁷⁰
- The level of understanding needed should be clarified.⁷¹ and

Other Comments

- The phrase is difficult to align with the guidance.⁷²
40. However, there were positive comments that showed support for the objective and work effort requirements believed that these terms were clear and appropriate.⁷³

⁶¹ BDO, BT, CACR, C. Barnard, FEE, HKICPA, ICPAS, IDW, IRE-IBR, JICPA, MAOB, MNP, NBA, PWC,

⁶² MIA(Malaysia), PP

⁶³ DTT, FAR

⁶⁴ ACCA, GTI, HQ, ICAA, IRBA, KI, WPK

⁶⁵ HKICPA, FRC, ICPAS, KPMG, NAO, PWC,

⁶⁶ IDW, PWC, WAO

⁶⁷ DTT, ICAEW, IRBA,

⁶⁸ EYG, GTI,

⁶⁹ HEOS

⁷⁰ FRC, IAIS, IDW, IRBA, though other respondents explicitly disagree. See, for example, ICAS

⁷¹ BCBS

⁷² ACAG, IIA, NAO,

⁷³ See, for example, HEOS.

Task Force Proposals

41. The Task Force acknowledges the concerns expressed by some respondents. To address these comments, the Task Force proposes several changes to provide a basis for a more consistent work effort by the auditor.
42. It is important to note that not all aspects of the auditor's work effort, and the implications for the auditor's report, have yet been fully considered by the Task Force. Further, the Task Force acknowledges that consideration of the application material will be needed to give full effect to these changes.
43. The Task Force proposes to amend paragraph 11 to state:

11. *The auditor shall, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, read the other information. In reading the other information, the auditor shall consider whether there may be an inconsistency between the other information and:*

- (a) *The audited financial statements, or*
- (b) *The auditor's understanding of the entity and its environment acquired during the audit*

that indicates that the audited financial statements may be materially misstated or that there may be a material misstatement of fact in the other information.

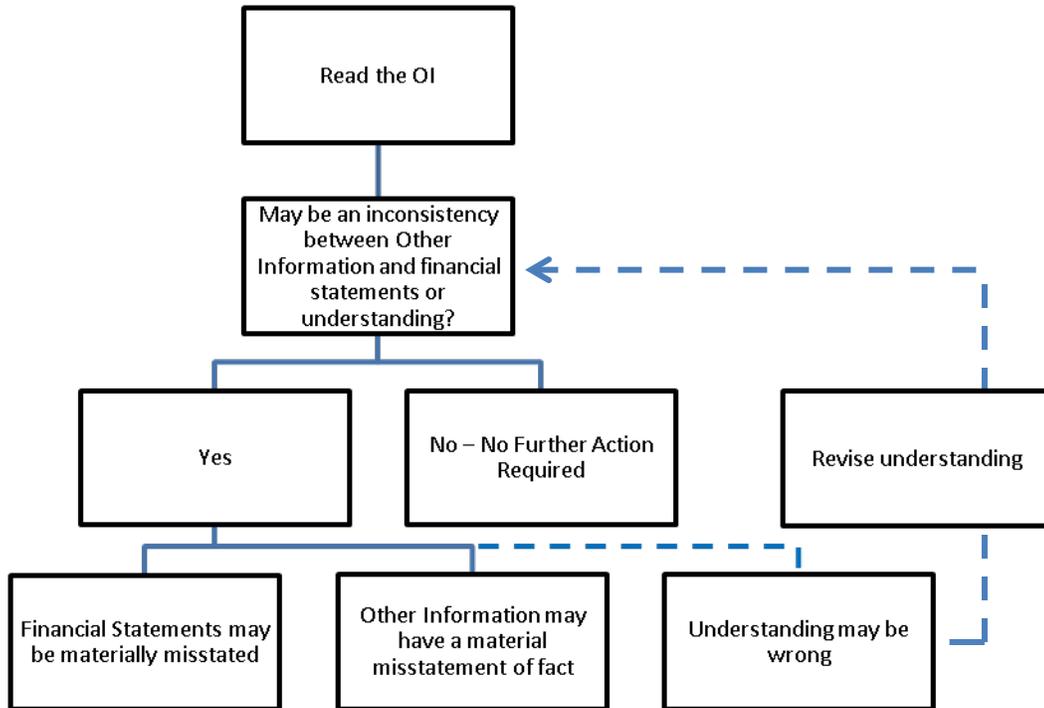
The Task Force also proposes to define "material misstatement of fact" as follows:

Material misstatement of fact – A misstatement of fact exists when the other information is incorrect or presents a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor's report is prepared (taken on the basis of the audited financial statements and the other information as a whole).

44. The changes to paragraph 11 comprise three essential parts. Firstly, the "read" requirement has been separated from the "consider" requirement. This change has the merit of enabling the meaning of "consider" to align with that used in other ISAs.
45. Secondly, the term "inconsistency" is no longer defined so that it can take its ordinary dictionary meaning.
46. Thirdly, the proposed requirement uses the term "misstatement of fact" (based on the concept from extant ISA 720) to refer to any 'error' in the Other Information, in order to respond to the concerns about the use of the term "Inconsistency in the Other Information" in ED-720.
47. **Appendix 4** explains the changes to the definition of "material misstatement of fact" from extant ISA 720.
48. From the above, the auditor should be considering the possible implications of any apparent inconsistencies that arise when reading the Other Information; that is, whether the audited financial statements may be materially misstated, whether there may be a

material misstatement of fact, or whether the auditor's understanding of the entity and its environment may be wrong. The auditor would then undertake other actions, depending on which of these three outcomes is implied.

49. The decision tree below illustrates the operation of paragraph 11:



The Task Force believes that the above changes are a significant improvement which should address many of the concerns expressed by respondents.

50. The Task Force needs to further consider these proposals in light of respondents' comments on the remainder of ED-720 requirements and application material, including that material which guided the auditor concerning the nature and extent of active steps appropriate in the circumstances in considering the other information in light of the auditor's understanding, such as reconciling amounts or referring to or comparison with the audit documentation. The Task Force also needs to further consider the implication of these proposals in relation to communications in the auditor's report. Nevertheless, the Task Force invites comments on the direction proposed by the Task Force.

Matter for IAASB Consideration

4. What are the IAASB's views on the direction proposed by the Task Force regarding paragraph 11 and the definition of "misstatement of fact?"

C. Securities Offering Documents

51. ED-720 included application material that noted that securities offering documents would be within the scope of the ISA if it met the criteria, but would not otherwise be included.

52. Investors were comparatively silent on this point, with only one⁷⁴ expressing support for the proposal. Regulators expressed mixed views. For example, some IOSCO members believe that securities offering documents should be explicitly included within a revised ISA 720 (see below for specific reasons), while other IOSCO members believed that they should be excluded, as securities offering documents are usually covered by local law or regulation (see below for other specific reasons). Other respondents had mixed views including, for example, that:

Comments in support of the position adopted in ED-720⁷⁵

- The definition of Other Information should be consistently applied; therefore, if securities offering documents are within the scope of Other Information then they should be read and considered by the auditor.⁷⁶

Comments in support of the inclusion of securities offering documents⁷⁷

- Auditor attention on securities offering documents may have helped prevent specific accounting issues.⁷⁸
- Securities offering documents should be within the scope of ISA 720 if the specific circumstances warrant it.⁷⁹
- TCWG should be able to decide if they want securities offering documents included.⁸⁰

Comments opposed to the inclusion of securities offering documents⁸¹

- Inclusion of securities offering documents in the scope of ISA 720 may conflict with national law or regulation which addresses the auditor's responsibilities in such circumstances.⁸²
- ISA 720 should only deal with regular, recurring documents.⁸³
- Securities offering documents should be explicitly excluded to minimize the degree of judgment required by the auditor;⁸⁴

⁷⁴ HEOS

⁷⁵ Some commentators supported the position adopted in ED-720, but did not provide a rationale. These included D. Juvenal, FAR, HEOS, ICAS, NZAUASB, RCA, Swedish NAO

⁷⁶ FEE, FRC, JICPA, NYSSCPA,

⁷⁷ A respondent supported the inclusion of securities offering documents in the scope of ISA 720, but did not provide a rationale: RSM

⁷⁸ AAA

⁷⁹ ACCA

⁸⁰ IIA

⁸¹ Some respondents believed that securities offering documents should be excluded from the scope of ISA 720, but did not provide a rationale. These included C. Barnard, CIPFA, FSR, NAO, PP, WAO

⁸² ACCA, AGNZ, ASSIREVI, AUASB, BDO, BT, CAASB, CNCC/CSOEC, DTT, EAIG, EFAA, EYG, GTI, HKICPA, HQ, ICAA, ICAEW, ICAP, ICPAS, IPAR, IRE-IBR, KI, MAOB, MIA(Malaysia), MNP, NBA, PWC, SAICA, ZICA

⁸³ ANOORALI

- Securities offering documents are often issued at a significantly different time to the audited financial statements, so inconsistencies may have developed purely due to the passage of time.⁸⁵ and
- The primary purpose of a securities offering document is not to provide commentary to enhance the users' understanding of the audited financial statements.⁸⁶

53. After considering respondents' comments, the Task Force concluded that securities offering documents should be excluded from the scope of ISA 720 (Revised). National law or regulation usually addresses the auditor's responsibilities in relation to these documents, and imposing an obligation on auditors under ISA 720 is therefore likely to create conflicts with those laws or regulations. After the June IAASB meeting, the Task Force will consider whether ISA 720 should include a note that it may be "applied, adapted as necessary" to securities offering documents.

Matter for IAASB Consideration

5. Does the IAASB agree with the Task Force's proposal to exclude securities offering documents?

⁸⁴ CACR

⁸⁵ IRBA,

⁸⁶ KPMG, NBA,

Appendix 1

List of Respondents to the Exposure Draft on ISA 720

#	Abbrev.	Respondent (74)	Region
Investors and Analysts (3)			
1.	ICGN	International Corporate Governance Network	GLOBAL
2.	EUMEDION	Eumedion (Dutch Institutional Investors)	EU
3.	HEOS	Hermes Equity Ownership Services	GLOBAL
Regulators and Oversight Authorities (9)			
4.	BCBS	Basel Committee on Banking Supervision	GLOBAL
5.	CPAB	Canadian Public Accountability Board	NA
6.	EAIG	European Audit Inspection Group (15 European Regulators)	EU
7.	FRC	Financial Reporting Council (UK)	EU
8.	IAIS	International Association of Insurance Supervisors	GLOBAL
9.	ICAC	Ministerio de Economía y Competitividad (Instituto de Contabilidad y Auditoria de Cuentas) [Ministry of Economics and Competiveness (Institute of Accounting and Audit)]	EU
10.	IOSCO	International Organization of Securities Commissions	GLOBAL
11.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
12.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
Those Charged with Governance (2)			
13.	IIA	Institute of Internal Auditors	GLOBAL
14.	AICD	Australian Institute of Company Directors	AP
National Auditing Standard Setters (5)			
15.	ASB	American Institute of Certified Public Accountants' Auditing Standards Board	NA
16.	AUASB	Australian Auditing and Assurance Standards Board	AP
17.	CAASB	Canadian Auditing and Assurance Standards Board	NA
18.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
19.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Accounting Firms (12)			
20.	BDO	BDO International Limited	GLOBAL

21.	BT	Baker Tilly (UK)	EU
22.	DTT	Deloitte Touche Tohmatsu Limited	GLOBAL
23.	EYG	Ernst & Young Global Limited	GLOBAL
24.	GTI	Grant Thornton International Ltd	GLOBAL
25.	KI	Kreston International	NA
26.	KPMG	KPMG IFRG Limited (Network)	GLOBAL
27.	MNP	MNP LLP – formerly Meyers Norris Penny (Canada)	NA
28.	PP	Pitcher Partners (Australia)	AP
29.	PwC	PricewaterhouseCoopers International Limited	GLOBAL
30.	RSM	RSM International	GLOBAL
31.	WK	Westworth Kemp Consultants (Australia)	AP
Public Sector Organizations (6)			
32.	ACAG	Australasian Council of Auditors-General	AP
33.	AGNZ	Auditor General of New Zealand	AP
34.	GAO	United States Government Accountability Office	NA
35.	NAOUK	National Audit Office (UK)	EU
36.	NAOS	National Audit Office (Sweden)	EU
37.	WAO	Wales Audit Office	EU
Preparers of Financial Statements (1)			
38.	HQ	Hydro Quebec	NA
Member Bodies and Other Professional Organizations (30)			
39.	ACCA	Association of Chartered Certified Accountants	GLOBAL
40.	ASSIREVI	Associazione Italiana Revisori Contabili (Association of the Italian Auditors)	EU
41.	CACR	Chamber of Auditors Czech Republic	EU
42.	CAQ	Center for Audit Quality	NA
43.	CNCC/CSO EC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	EU
44.	CPAA	CPA Australia	AP
45.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
46.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
47.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
48.	FEE	Fédération des Experts comptables Européens - Federation of European Accountants	EU

49.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
50.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
51.	IBRACON	Instituto dos Auditores Independentes do Brasil	SA
52.	ICAA	Institute of Chartered Accountants in Australia	AP
53.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
54.	ICAP	Institute of Chartered Accountants of Pakistan	AP
55.	ICAS	Institute of Chartered Accountants of Scotland	EU
56.	ICJCE	Instituto de Censores Jurados de Cuentas de España	EU
57.	ICPAS	Institute of Certified Public Accountants of Singapore	AP
58.	IDW	Institut der Wirtschaftspruefer in Deutschland e.V.	EU
59.	IPAR	Institute of Professional Accountants of Russia	EU
60.	IBR-IRE	Institut des Experts-comptables et des Conseils Fiscaux (Instituut Van de Accountants en de Belastingconsulenten) & Instituut van de Bedrijfsrevisoren (Institut des Réviseurs d'Entreprises)	EU
61.	JICPA	Japanese Institute of Certified Public Accountants	AP
62.	MIA	Malta Institute of Accountants	EU
63.	MIA	Malaysian Institute of Accountants	AP
64.	NYSSCPA	New York State Society of Certified Public Accountants	NA
65.	RCA	Russian Collegium of Auditors	EU
66.	SAICA	South African Institute of Chartered Accountants	MEA
67.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
68.	ZICA	Zambia Institute of Chartered Accountants	MEA
Academics (1)			
69.	AAA	American Accounting Association - Auditing Standards Committee of the Auditing Section	NA
Individuals and Others (5)			
70.	ANAli	Altaf Noor Ali	AP
71.	CBarnard	Chris Barnard (Affiliated with ESMA, Germany)	EU
72.	DJuvenal	Denise Juvenal	SA
73.	DScott	Derek Scott (ICAS member)	EU
74.	IG	Insolvency Guardian	AP

Heat Map of Respondents' Comments

Level of support for IAASB proposals	Color Key
High support for both principle and related ED-720 proposal	High
Some concerns, for example general support for the principle but some concerns about related requirements and guidance	Some
Low support or opposition to both the principle and related requirements and guidance	Low
Significantly mixed views	Mixed
No response	N/A

Respondent Group ↓	Area of Comment →							
		Broadening the scope of Other Information	Concept of Initial Release	Securities Offering potentially in scope	Concept of Understanding of the entity and its environment	Read and consider includes financial statements	Definitions of "Inconsistency" and "material inconsistency" are appropriate	Principles based requirement for work effort
Investors (3)		Some	High	High	High	High	High	High
TCWG (2)		Some	Low	Some	Low	High	Some	High
Regulators (9)		Some	Some	Mixed	Some	Some	Some	Some
NSS (5)		Some	Some	Low	Some	Low	Low	High
Firms (12)		Some	Low	Low	Some	Low	Low	High
Public Sector Auditors(6)		Some	High	Low	Some	Some	Some	High
Preparer (1)		Low	Low	Low	Low	Some	Low	Low
Member Bodies (30)		Some	Low	Low	Some	Some	Low	High
Academic (1)		N/A	Low	High	Some	High	High	N/A
Individuals (5)		High	High	Some	High	High	Some	High

Illustration of Key Issues in Extant ISA 720, ED-720 and Task Force Proposals

Extant ISA 720	ED-720	Task Force Proposal
<p>Definition of Other Information and Related Concepts</p> <p>Other information – Financial and non-financial information (other than the financial statements and the auditor’s report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor’s report thereon.</p>	<p>Other information – Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in a document that is issued by the entity in connection with the initial release, and that:</p> <ul style="list-style-type: none"> (i) Contains the audited financial statements and the auditor’s report thereon; or (ii) 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>Other information – Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in:</p> <ul style="list-style-type: none"> (i) An annual report or other document(s) that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains or accompanies the financial statements and the auditor’s report thereon, or (ii) Another document issued or made available to owners (or similar stakeholders) that the auditor has agreed with the entity to be read and reported upon in accordance with

Extant ISA 720	ED-720	Task Force Proposal
	<p>Initial release – Initial release occurs 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, often the shareholders.</p>	<p>this ISA.</p> <p>An annual report or other document accompanies the financial statements when it is intended to be associated with, or is issued in connection with, the financial statements. (Ref: Para. A7–A9B, A14–A21)</p> <p>Annual Report - A comprehensive report on an entity's activities throughout the preceding year prepared by management and/or those charged with governance. The purpose of an annual report is to give equity owners and other stakeholders information about the company's activities, financial condition, outlook and risks. Most jurisdictions require certain entities, such as companies and entities listed on a stock exchange, to prepare and publicly disclose annual reports. Annual reports comprise various elements, and often include management commentary, operating and financial review or similar reports by those charged with governance (for example, directors’</p>

Extant ISA 720	ED-720	Task Force Proposal
		report); a Chairman’s statement; a corporate governance statement; an internal control report; and a risk assessment reports.
<p>Work Effort and Supporting Definitions</p> <p>The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.</p> <p>Inconsistency – Other information that contradicts information contained in the audited financial statements. A material inconsistency</p>	<p>The auditor shall read and consider the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit.</p> <p>Inconsistency in the other information – An inconsistency in the other information exists when the other information:</p>	<p>The auditor shall, in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit, read the other information. In reading the other information, the auditor shall consider whether there may be an inconsistency between the other information and:</p> <ul style="list-style-type: none"> (a) The audited financial statements; or (b) The auditor’s understanding of the entity and its environment acquired during the audit. <p>that indicates that the audited financial statements may be materially misstated or that there may be a material misstatement of fact in the other information.</p> <p>Material misstatement of fact - A misstatement of fact exists when the other information is incorrect or presents</p>

Extant ISA 720	ED-720	Task Force Proposal
<p>may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.</p> <p>Misstatement of fact – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.</p>	<p>(i) Contains information that is incorrect, unreasonable or inappropriate; or</p> <p>(ii) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information.</p> <p>An inconsistency in the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared taken on the basis of the audited financial statements and the other information as a whole.</p>	<p>a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor's report is prepared (taken on the basis of the audited financial statements and the other information as a whole).</p>

Agenda Item 5-A

Appendix 4

Marked Changes from Extant ISA 720 Definition of “Misstatement of Fact”

1. The Task Force proposes to use the term “misstatement of fact” from extant ISA 720, amended as follows:

Misstatement of Fact - ~~A misstatement of fact exists when the Other information is that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented incorrect or presents a matter in a way that omits or obscures information necessary for a proper understanding of that matter. A material misstatement of fact is material if it could reasonably be expected to influence the economic decisions of users for which the auditor's report is prepared (taken on the basis of the may undermine the credibility of the document containing audited financial statements and the other information as a whole).~~

2. The changes to the definition:
 - Remove the limitation in the extant that limited such items to information not relating to matters included in the audited financial statements. That limitation was necessary in the extant definition because the work effort relating to the identification of ‘errors’ in information relating to matters included in the audited financial statements was proactive (see paragraphs 6 and 8–13 of extant ISA 720) whereas the work effort relating to information not relating to matters included in the audited financial statements was reactive (see paragraphs 14–16 of extant ISA 720). No such difference was proposed in ED-720 because all the Other information was intended to be considered in the light of the auditor’s understanding.
 - Uses the term “omit or obscures information” to align with paragraph 110.2 of the IESBA code.⁸⁷
 - Clarify the meaning of the term ‘incorrectly stated or presented’ as comprising both factual and more qualitative errors arising from a presentation that omits or obscures important information. In doing so, the Task Force has drawn on the language in the definition of an ‘inconsistency in the Other Information’ in ED-720 whilst avoiding terms such as ‘inappropriate’ and ‘unreasonable’ that commentators found difficult to apply consistently.
 - Clarify that a Misstatement of Fact is material by reference to the normal definition of materiality used elsewhere in the ISAs rather than solely by reference to its impact on the credibility of the financial statements.

⁸⁷ International Ethics Standards Board for Accountants (IESBA), *Code of Ethics for Professional Accountants*