

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: March 11–12, 2014

Agenda Item **B**

The Auditor's Responsibilities Relating to Other Information – Proposed ISA 720 (Revised) Report Back, Issues and Task Force Proposals

Objectives of Agenda Item

1. The objectives of this Agenda Item are:
 - (a) To obtain the Representatives' views on the key issues to be discussed by the IAASB at its March 2014 meeting.
 - (b) To provide a report back to the Representatives on their comments and questions on the proposed revised ISA 720¹ as discussed at the September 2013 CAG Meeting.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. The IAASB will be asked to approve proposed ISA 720 (Revised) for re-exposure at its March 2014 meeting, along with proposed consequential and conforming amendments to a number of ISAs.²
4. The proposed ISA 720 (Revised) is provided as **Agenda Item B.1**. **Agenda Item B.2** provides a comparison of the key elements of proposed ISA 720 (Revised) discussed by the CAG in September 2013 with those included in **Agenda Item B.1**. For reference only, the issues paper and the proposed conforming amendments to be discussed at the March 2014 IAASB meeting are included as CAG Reference Papers.
5. Appendix 1 of this paper provides a project history, including links to the relevant CAG documentation.

¹ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

² ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 230, *Audit Documentation*; ISA 260, *Communication with Those Charged with Governance*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; ISA 560, *Subsequent Events*; proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 810, *Engagements to Report on Summary Financial Statements*.

September 2013 CAG Discussion

6. Below are extracts from the draft minutes of the September 2013 CAG meeting,³ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
SCOPE AND DEFINITIONS	
<p>Messrs. Ahmed, Dalkin, Koktvedgaard, Thompson, Ratnayake, Uchino and Mmes. Blomme and Lang expressed support for the revised definitions of other information and annual report.</p>	<p>Support noted.</p>
<p>Ms. Blomme, Lang and Mr. Thompson supported the revised definition of other information and its linkage to the annual report. However, they questioned the need for documents similar to the annual report to be included in the definition. Mr. N. James questioned whether including documents similar to annual reports in the definition of other information may introduce greater variability in judgments that incorporating the concept into the definition of annual reports.</p>	<p>Point taken into account.</p> <p>Mr. Gélard responded by noting that the Task Force was of a view that restricting the scope to annual reports per se could exclude many documents that have a similar purpose simply because they are provided separately in some jurisdictions, such as the management reports required in Europe.</p> <p>However, the Task Force has revised and refocused the definition of "other information" and "annual report" in light of the comments received which better captures the IAASB's intent, including clarifying the treatment of separate documents that may be issued by an entity but which are not part of the annual report.</p> <p><i>See paragraphs 10(a), 10(c), A1–A4 and A6–A9 of Agenda Item B.1.</i></p>
<p>Mr. Dalkin supported the revised definitions in the proposed ISA, as a means of providing greater clarity about the boundaries of other information. He noted that public entities may publish large amounts of other information that may be much broader in scope than that which is provided by private entities.</p>	<p>Support noted.</p>
<p>Mr. Thompson highlighted that users may find including such documents in the scope of</p>	<p>Point not accepted.</p> <p>The Task Force notes that the definition of an</p>

³ The minutes will be approved at the March 2014 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
<p>proposed ISA 720 (Revised) confusing, as the auditor's report is only included in the annual report, not these other documents.</p>	<p>annual report recognizes that, in some jurisdictions, there is no single document titled "annual report" but there is a combination of documents that together achieve the same objective. In such a circumstance, limiting the other information to only those documents which contain the financial statements would result in some jurisdictions having little or no "other information," even though the information issued by the entities is broadly the same as jurisdictions which issue a comprehensive "annual report."</p>
<p>Ms. Lang asked why the Task Force had used the term "audited financial statements" rather than just "financial statements."</p>	<p>Point accepted. The Task Force has used the term "financial statements" throughout the ISA.</p>
<p>Mr. Koktvedgaard suggested the Task Force should seek to narrow the definition of other information as much as possible to ensure the standard is applied to documents that are useful to investors. Ms. Blomme encouraged the IAASB to explore this option.</p>	<p>Point taken into account. The Task Force has revised and refocused the definition of "other information" and "annual report" in light of the comments received which better captures the IAASB's intent, including clarifying the treatment of separate documents that may be issued by an entity but which are not part of the annual report. <i>See paragraphs 10(a), 10(c), A1–A4 and A6–A9 of Agenda Item B.1.</i></p>
<p>Mr. Morris suggested that, given the wide range of public disclosures made by entities, the Task Force should be specific regarding the intended scope of other information to avoid relying too much on the auditor's interpretation.</p>	<p>Point accepted. The Task Force agrees with this comment, and has sought to provide as much guidance aimed at driving consistency as is practical, given the expected diversity in application across jurisdictions as a result of varying national circumstances. <i>See paragraphs 10(a), 10(c), A1–A4 and A6–A9 of Agenda Item B.1.</i></p>

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Koktvedgaard noted that he believed that the Task Force was responsive to the comments received. Specifically, he supported the proposed change of scope, noting it was more logical and avoided the risk of including too many documents. He suggested that it may be possible to incorporate documents similar to annual reports into the definition of annual reports.</p>	<p>Support noted. Point accepted. <i>See paragraphs 10(a) and 10(c) of Agenda Item B.1.</i></p>
<p>Mr. White added that many companies have two annual reports as they are listed on multiple exchanges, and supported the Task Force's proposal to include documents similar to the annual report.</p>	<p>Support noted. The Task Force has included material addressing dual-listed companies. <i>See paragraph A11 of Agenda Item B.1.</i></p>
<p>Messrs. Bollmann and Koktvedgaard supported the exclusion of websites from the scope of proposed ISA 720 (Revised).</p> <p>Mr. Bollmann asked whether documents that were made publicly available through other means and subsequently posted on an entity's website would be considered within scope.</p>	<p>Support noted.</p> <p>Mr. Gélard noted that the document would be within scope when distributed online to users, assuming the other scoping requirements were met.</p>
<p>Mr. Belatik asked whether Sharia compliance statements, required by certain entities in Islamic jurisdictions, would be within the scope of ISA 720.</p> <p>Mr. Ahmed noted that Islamic banks include a statement on the Sharia board's findings on the annual report, as the Sharia board is viewed as a form of internal control. He highlighted that the role and interactions of Sharia boards should be included in the considerations of the work of the global standard setters, noting that the Basel Committee has recognized Sharia finance as an emerging sector, as the revised Core Principles for Effective Banking Supervision includes several paragraphs addressing Islamic institutions and the special requirements they have.</p>	<p>Point taken into account.</p> <p>Mr. Gélard noted that Sharia compliance statements would be included in the scope of the standard if they are an element of the annual report or document similar to an annual report.</p>

Representatives' Comments	Task Force/IAASB Response
SECURITIES OFFERING DOCUMENTS	
<p>Mr. Uchino asked whether the auditor's work effort under proposed ISA 720 (Revised) could conflict with local securities law or regulation.</p>	<p>Point noted.</p> <p>Mr. Gélard noted that in some jurisdictions, such as France and the UK, the auditor or reporting accountant must perform certain procedures on securities offering documents and make specific communications to regulators. In some cases, these laws and regulations may contain requirements that conflict with the proposed ISA, for example, by requiring confidential communications with regulators that would be compromised by extending the proposed ISA to such documents.</p>
<p>Mr. Uchino asked if the IAASB has a standard on securities offering documents.</p>	<p>Point noted.</p> <p>Mr. Gunn responded by noting that ISA 200⁴ explains that the ISAs do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with the offering of securities to the public. The IAASB literature, however, included two standards addressing assurance on aspects of securities offering documents – prospective financial information⁵ and pro forma financial information.⁶</p>
<p>Mr. White noted that proposed ISA 720 (Revised) should include application material that explains that annual reports are often incorporated into securities offering documents, which would bring the securities offering document within scope.</p>	<p>Point not accepted.</p> <p>The IAASB determined that proposed ISA 720 (Revised) should specifically exclude securities offering documents from the scope of the ISA, due to the concerns about conflicts with local law or regulation. See paragraph 5 of Agenda Item B.1.</p> <p>This includes circumstances where the annual report, or the financial statements and the</p>

⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁵ ISAE 3400, *The Examination of Prospective Financial Information*

⁶ ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

Representatives' Comments	Task Force/IAASB Response
	auditor's report thereon, are included in the securities offering document.
<p>Mr. Baumann highlighted that the PCAOB also found this question difficult in developing the recent PCAOB proposals⁷ that included a proposed new PCAOB standard to address other information in financial statement audits. He noted that, while he would have preferred that the new proposed PCAOB standard cover securities offering documents, they were also excluded in the PCAOB proposals because of nuances in the US securities regulations. He highlighted that in the US, the securities offering documents are filed with the regulator on a preliminary basis which may result in amendments to the filing. As such, when the US securities offering documents become public, the other information may have changed, but the auditor's report would cover the original other information (not subject to the subsequent amendments) that was not yet available to the public. Mr. Baumann noted that the PCAOB proposals require auditors to perform procedures on the amended other information, but do not require them to report on that work. Mr. Baumann indicated that this was an area on which the PCAOB explicitly for feedback from respondents.</p>	<p>Points noted.</p> <p>Mr. Gélard acknowledged the issuance of the PCAOB proposals and indicated that they would be considered by the Task Force.</p> <p>The IAASB determined that proposed ISA 720 (Revised) should specifically exclude securities offering documents from the scope of the ISA, due to the concerns about conflicts with local law or regulation.</p> <p>See paragraph 5 of Agenda Item B.1.</p>
<p>Mr. Baumann suggested that consideration could be given as to whether a separate standard addressing securities offering documents is needed. He further suggested that the IAASB consider whether the auditor should be required to apply proposed ISA 720 (Revised) to securities offering documents, in particular for Initial Public Offerings (IPO) if no local laws about such documents exist, even though it may not be</p>	<p>Point not accepted.</p> <p>The IAASB determined that proposed ISA 720 (Revised) should specifically exclude securities offering documents from the scope of the ISA, due to the concerns about conflicts with local law or regulation. See paragraph 5 of Agenda Item B.1.</p> <p>At the September 2013 IAASB meeting, the IAASB agreed with the Task Force's view that</p>

⁷ [PCAOB Release No. 2013-005](#), *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and The Related Auditor's Report; and Related Amendments to PCAOB Standards*

Representatives' Comments	Task Force/IAASB Response
<p>possible to mandate reporting on such securities offering documents. Mr. N. James agreed with Mr. Baumann's suggestion, noting that IOSCO had divided views on whether proposed ISA 720 (Revised) should extend to securities offering documents due to the potential conflicts with some local laws. However, Mr. N. James added that IOSCO was of a view that in circumstances where there was no local law, proposed ISA 720 (Revised) should be applied to securities offering documents.</p>	<p>individual countries could establish law or regulation to require auditors to apply the work effort required by ISA 720 (Revised) to securities offerings, but that it was dangerous to assume that the work effort proposed by ISA 720 (Revised) would be sufficient to meet those countries' needs in the context of securities offerings.</p>
<p>Mr. Ratnayake supported the Task Force's position to exclude securities offering documents from the scope of proposed ISA 720 (Revised), as he agreed that many jurisdictions have separate assurance requirements or statements for these documents. However, he noted that auditors may look at securities offering documents as part of their audit.</p>	<p>Support noted.</p>
<p>Mr. Koktvedgaard asked whether securities offering documents were still effective when the annual report was issued, and indicated that this may mean that it is within the scope of proposed ISA 720 (Revised). He also suggested that work on securities offering documents should be a separate engagement from the financial statement audit.</p>	<p>Point noted.</p> <p>The Task Force does not intend for the possibility that such documents would be scoped in under any circumstances, as proposed ISA 720 (Revised) specifically excludes securities offering documents from the scope of the ISA, due to the concerns about conflicts with local law or regulation</p> <p>See paragraph 5 of Agenda Item B.1.</p>
<p>WORK EFFORT</p>	
<p>Ms. Lang supported the Task Force's proposed work effort, noting that she appreciated the principles-based nature of the requirements. Mr. Fukushima encouraged the IAASB to be as clear as possible in relation to the auditor's work effort so as not to widen the expectations gap about such work.</p>	<p>Support noted.</p> <p>The Task Force has clarified and simplified both the objectives and work effort to avoid widening the expectations gap.</p> <p>See Sections A and B of this paper below.</p>
<p>Messrs. Hansen and Koktvedgaard expressed a preference for the language in the recent PCAOB</p>	<p>Point taken into account.</p> <p>The draft ISA uses both "consider" and "evaluate"</p>

Representatives' Comments	Task Force/IAASB Response
<p>proposal, “evaluate,” versus “consider” as used in IAASB’s proposed ISA 720 (Revised). They were of a view that the word “evaluate” connotes action whereas the word “consider” conveys a meaning that the auditor is to reflect upon the matter. Mr. Koktvedgaard noted that the choice of “consider” or “evaluate” requires consideration of the translation implications. Mr. Dalkin was of the view that the two concepts were different, and noted that the use of different wording between the PCAOB and IAASB standards may mean that users of the standards will come to different interpretations.</p> <p>Mr. Baumann commented that the term “evaluate” was more customarily used in PCAOB auditing standards and has been traditionally used and interpreted to mean that the need for the auditor to perform a procedure(s). Mr. Baumann added that with proposed ISA 720 (Revised) being a principles-based standard, the used of the word “consider” leaves the decision as to whether procedures are performed to the auditor’s judgment. He expressed a view that the auditing standard should mandate a minimum level of procedures that should be performed by the auditor.</p>	<p>in different contexts. See paragraphs 12 and 13 of Agenda Item B.1 and Section B of this paper below.</p> <p>The Task Force is of the view that the term “consider” would be appropriate in the ISA when the auditor’s work effort was intended to mean “reflect upon”, while “evaluate” was appropriate when procedures were involved. Accordingly, both terms are used in the appropriate places within the requirements describing the auditor’s work effort.</p> <p>See Section B of this paper below.</p>
<p>Mr. Baumann highlighted that IFIAR is currently looking into the specificity of auditing requirements. Mr. N. James agreed with Mr. Baumann, and suggested that paragraph 11A of the draft, which requires determination of the nature and extent of procedures that are necessary in the circumstances, be strengthened. Mr. N. James suggested that greater specificity was needed, for example, to require auditors to perform reconciliations between the other information and the financial statements or perform other procedures to verify the amounts in the other information. He suggested that some material from Appendix 2 of the proposed ISA could potentially be incorporated into the</p>	<p>Point taken into account.</p> <p>The Task Force’s current proposal includes specific procedures to evaluate whether amounts or items in the other information are materially inconsistent with the amounts or items financial statements.</p> <p>See paragraph 13 of Agenda Item B.1 and Section B below for further information.</p>

Representatives' Comments	Task Force/IAASB Response
<p>requirements. Mr. Morris noted that, in his view, the ISA is too open-ended and leaves the reader wondering what the auditor is required to do. Mr. Morris added that practitioners would be assisted by having more requirements that guide them to perform the level of procedures that the IAASB expects. Mr. Dalkin expressing support for the Task Force's approach and cautioned that having a standard that includes a detailed list of very prescriptive procedures often become the default procedures followed over time, removing the important auditor judgment about what procedures may be necessary in the circumstances.</p>	
<p>Mr. Morris suggested that the IAASB consider mandating some procedures in relation to quantitative amounts in the other information, as well as requiring the auditor to consider the subjectivity of management's judgments.</p> <p>On the other hand, Mr. Hansen highlighted that the draft ISA appeared to be focused too heavily on quantitative other information, as much of the other information was narrative disclosure. He noted that the term "material misstatement of fact" is not a useful trigger, as anything misleading in the other information should be addressed.</p>	<p>Point partially accepted.</p> <p>The Task Force's current proposal includes a specific requirement to evaluate whether amounts or items in the other information are materially inconsistent with the amounts or items financial statements. See paragraph 13 of Agenda Item B.1 and Section B below for further information.</p> <p>Point accepted. Proposed ISA 720 uses the term "misstatement of the other information" to describe those "errors" in the other information, whether arising from a material inconsistency with the financial statements or the auditor's knowledge, or from the auditor remaining alert for other information that is materially incorrectly stated or otherwise misleading.</p> <p>See paragraph 10(b) of Agenda Item B.1.</p>
<p>Mr. Ahmed empathized with the Task Force, noting that the IFSB faced similar challenges, as respondents to the IFSB' exposure drafts have very divergent views regarding the prescriptiveness of requirements. He acknowledged the difficulty that exists in having to reconcile those divergent views. He suggested that proposed ISA 720 (Revised) remain principles-based and avoid too many detailed procedures.</p>	<p>Support noted.</p>

Representatives' Comments	Task Force/IAASB Response
<p>Ms. Molyneux suggested enhancing the documentation requirements in the proposed standard to specify that the judgment about the procedures selected for the other information should be documented, thus enabling a regulator or inspector to review to the documentation to determine the reasonableness of the judgment exercised in performing the procedures.</p>	<p>Point not accepted.</p> <p>The Task Force believes that ISA 720 does not contain any specific issues with respect to the exercise of professional judgment that would warrant going beyond the existing documentation requirements in ISA 230.</p>
<p>Mr. Koktvedgaard also suggested revisions to paragraph 11 of the draft ISA for it to be in plainer language.</p>	<p>Point accepted.</p> <p>The suggested revisions were taken into account in the revised document.</p> <p>See paragraph 12 of Agenda Item B.1.</p>
<p>Mr. Hansen agreed that there should be an obligation to address other information issued after the date of the auditor's report. Mr. Koktvedgaard did not support a requirement to continue to address other information issued after the date of the auditor's report, noting that it may have unintended consequences. Mr. White pointed out that the draft ISA implied that procedures continued after the date of the audit opinion, and suggested that it be clarified to indicate that it is only in relation to new other information.</p>	<p>Point taken into account.</p> <p>The requirement to read other information obtained after the date of the auditor's report is present in extant ISA 720, and the IAASB does not believe it is in the public interest to retreat from this position. The Task Force has brought together the requirements addressing other information obtained after the date of the auditor's report into a single place to improve the readability of the ISA. However, the Task Force also believes that the better specification of the definition of "other information" and "annual report" will assist by clarifying which documents are in scope.</p> <p>See paragraphs 10(a), 10(c), and 17 of Agenda Item B.1.</p>
<p>REPORTING</p>	
<p>Mr. Koktvedgaard supported the Task Force's revisions to the requirement related to reporting, noting that it was an improvement on the exposure draft, but provided some drafting suggestions aimed at simplifying the wording.</p>	<p>Support noted and suggested drafting noted.</p> <p>See paragraph A49 of Agenda Item B.1.</p>
<p>Ms. Molyneux noted that investors place value on knowing which documents had been read as part of the auditor's work on other information.</p>	<p>Point accepted.</p> <p>Mr. Gélard agreed, adding that the ISA included a requirement to state which documents had been read as other information prior to the issuance of the auditor's report.</p>

Representatives' Comments	Task Force/IAASB Response
	<i>See paragraph 19(a) of Agenda Item B.1 and Section C below.</i>
<p>Mr. Ratnayake suggested that the proposal not to require reporting on other information received after the date of the auditor's report may produce inconsistencies depending on when the other information was available to individual auditors.</p>	<p>Point noted.</p> <p>Mr. Gélard agreed, but noted that market practices will evolve over time as users demand that other information be issued in time for the auditor to report on it in the auditor's report. However, Mr. Gélard also noted that, unless law or regulation become more specific and stringent about reporting deadlines for other information, there will always be inconsistencies among entities.</p> <p>However, the proposed ISA does acknowledge the possibility that the auditor may decide to reissue the auditor's report, when permitted by law or regulation, in circumstances when the other information is obtained after the date of the auditor's report and the auditor determines that a material misstatement of the other information exists.</p> <p><i>See paragraph A47 of Agenda Item B.1.</i></p>
<p>Mr. N. James pointed out that that ISA 560⁸ deals with the auditor's responsibility regarding information that would affect the financial statements that is obtained subsequent to date of the auditor's report, but does not address other information. He also pointed out that the same work will be done on other information, regardless of whether it was referenced in the auditor's report or not, but that the level of transparency was different if such information is not addressed in the auditor's report. Mr. N. James indicated that IOSCO had suggested that the IAASB ask investors how they would like to receive information about the auditor's work on other information obtained after the date of the auditor's report.</p>	<p>Point not accepted.</p> <p>Mr. Gélard noted that performing work on other information issued after the date of the auditor's report is in the public interest, even if the auditor is not able to reissue the report. Mr. Gélard stated that in his view, market forces would eventually drive increased transparency in all circumstances.</p> <p>See Section C of this paper below for a discussion of the Task Force's proposal to not require reporting after the date of the auditor's report. The Task Force has also proposed a conforming amendment to ISA 560 to exclude the auditor's responsibilities to address other information from the scope of that ISA, as ISA 720 (Revised) contains the necessary requirements and application material.</p>

⁸ Paragraphs 11–17 of ISA 560

Representatives' Comments	Task Force/IAASB Response
	<p>However, the proposed ISA does acknowledge the possibility that the auditor may reissue the auditor's report when the other information is obtained after the date of the auditor's report and the auditor determines that a material misstatement of the other information exists.</p> <p><i>(See paragraphs 17 and A45–A47 of Agenda Item B.1.</i></p>
<p>Mr. Baumann noted that the exclusion from the auditor's report of other information received after the date of the auditor's report may lead to abuse, particularly in those jurisdictions where including a statement on other information in the auditor's report is perceived as increasing the auditor's liability.</p> <p>Mr. Baumann also pointed out that the illustrative report also mentions that the auditor "reads" the other information rather than "reads and considers".</p> <p>Mr. Ratnayake pointed out the illustrative report may impose a burden on the auditor to attempt to obtain drafts of the other information before the date of the auditor's report.</p> <p>Mr. Baumann suggested that the ISA includes guidance for auditors to specify in the engagement letter that management will produce the other information before the date of the auditor's report.</p>	<p>Point not accepted.</p> <p>See Section C of this paper below for a discussion of the Task Force's proposal to not require reporting after the date of the auditor's report. The Task Force has also proposed a conforming amendment to ISA 560 to exclude the auditor's responsibilities to address other information from the scope of that ISA, as ISA 720 (Revised) contains the necessary requirements and application material.</p> <p><i>See paragraphs 17 and A45–A47 of Agenda Item B.1.</i></p> <p>Point accepted. <i>See paragraph A49 of Agenda Item B.1</i> for the revised statement in the auditor's report, which includes greater detail on the auditor's work effort.</p> <p>Point noted.</p> <p>Point accepted. The Task Force has proposed a conforming and consequential amendment to ISA 210 to include reference to obtaining the other information and other information in the illustrative audit engagement letter.</p>
OTHER MATTERS	
<p>Mr. Bluhm commented that there were no particular small- and medium-sized entities (SME) issues with proposed ISA 720 (Revised), noting</p>	<p>Support noted.</p>

Representatives' Comments	Task Force/IAASB Response
<p>that it was principles-based and did not raise concerns with practitioners working with SMEs.</p> <p>He noted that there needed to be clarity on when the obligations under proposed ISA 720 (Revised) would cease, as that smaller practitioners often read ISAs in sections rather than comprehensively, thus they would benefit from a clearer demarcation of when the auditor's responsibility ends.</p> <p>Mr. Morris suggested more specificity in relation to procedures better serves SMPs and lesser developed entities by clearly explaining what needs to be done.</p>	<p>Point taken into account. The requirement to read other information obtained after the date of the auditor's report is present in extant ISA 720, and the IAASB does not believe it is in the public interest to retreat from this position. The Task Force has brought together the requirements addressing other information obtained after the date of the auditor's report into a single place to improve the readability of the ISA. However, the Task Force also believes that the better specification of the definition of "other information" and "annual report" will assist by clarifying which documents are in scope. See paragraphs 10(a), 10(c), and 17 of Agenda Item B.1.</p> <p>Support noted.</p>

Matters for CAG Consideration

A. Objectives

7. At the December 2013 IAASB meeting and a February 2014 IAASB teleconference, a number of IAASB members raised concerns with the objectives of the auditor as stated in the proposed ISA. In particular, they were concerned about that the objective could be read as focusing on improving the quality of the other information in its own right – a position that they saw as beyond the scope of an audit of financial statements and leading to an increase in the expectations gap. They also noted that what they saw as the ultimate purpose of looking at other information, namely, determining whether there is an inconsistency between the other information and the audited financial statements that could undermine the credibility of the audited financial statements, was obscured by this approach. Other comments included that the objective was overly complex and that there was inadequate links to the auditor's ethical obligations.
8. **Paragraph 9 of Agenda Item B.1** contains the following proposed revised objectives:
 9. *The objectives of the auditor, having read the other information, are:*
 - (a) *To consider, through performing limited procedures, whether there is an apparent material inconsistency between the other information and the financial statements, because such an inconsistency may*

undermine the credibility of the financial statements and the auditor's report thereon;

- (b) *To consider whether there is an apparent material inconsistency between the other information and the auditor's knowledge gained during the course of the audit;*
- (c) *To respond appropriately when the auditor identifies such apparent material inconsistencies, or when the auditor becomes aware that other information is apparently materially incorrectly stated or is otherwise misleading; and*
- (d) *To report in accordance with this ISA.*

9. The revised objectives are designed to provide a balanced and measured response to the comments received. Central to the changes is the focus on considering whether there is an apparent material inconsistency between the other information and the financial statements or the auditor's knowledge gained during the course of the audit – recognizing that such an inconsistency may undermine the credibility of the audited financial statements. The auditor also has the objective of responding appropriately when such an inconsistency is identified, or when the auditor becomes aware that other information is apparently materially incorrectly stated, or is otherwise misleading. Both inconsistencies and other information that is apparently materially incorrectly stated, or is otherwise misleading can result in the other information being materially misstated.
10. The Task Force notes the following about the revised objectives:
- (a) Refocusing the ISA on “inconsistencies” with both the financial statements and the auditor's knowledge will aid in avoiding confusion by using a term that is familiar to readers of extant ISA 720.
 - (b) The revised objectives reflect, in higher-level terms, the work effort required by the standard to avoid increasing the expectations gap.
 - (c) The revised objectives of the auditor include responding when the auditor becomes aware that the other information is apparently materially incorrectly stated or is otherwise misleading *(see paragraph 9(c) in the extract above)*. This terminology has been chosen to stress the need to remain alert to the possibility that there could be a material misstatement in the other information, even in areas about which the auditor has no knowledge gained during the course of the audit, in recognition that the other information has grown in importance over the years. This approach also recognizes that ISA 720 is not intended to provide assurance on the other information itself.
 - (d) By using the term “incorrectly stated or otherwise misleading” it also reflects, in part, the auditor's ethical obligation.⁹ To make this link clear to readers, an explicit reference to the auditor's ethical obligations is included in **paragraph 2 of Agenda Item B.1**.

⁹ Paragraph 110.2 of the *Code of Ethics for Professional Accountants* states “A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information: (a) Contains a materially false or misleading statement; (b) Contains statements or information furnished recklessly; or (c) Omits or obscures information required to be included where such omission or obscurity would be misleading”.

Matter for CAG Consideration

1. Representatives are asked to provide their views on the proposed objectives.

B. Work Effort

11. **Paragraphs 12 and 13 of Agenda Item B.1** contain the key work effort paragraphs:
 12. *The auditor shall read the other information and shall: (Ref: Para. A21–A22)*
 - (a) *Consider whether there is an apparent material inconsistency between the other information and the financial statements; (Ref: Para. A23–A27)*
 - (b) *Consider whether there is an apparent material inconsistency between the other information and the auditor’s knowledge gained during the course of the audit; and (Ref: Para. A28–A33)*
 - (c) *Remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. (Ref: Para. A34–A35)*
 13. *In fulfilling the requirement in paragraph 12(a), the auditor shall perform limited procedures to evaluate the consistency between the amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements.*
12. In proposing these revised requirements, the Task Force focused on providing a work effort that was as clear as possible, in recognition that readers of the ISA, including members of the IAASB, had found that previous versions too open-ended. It was also noted that the previous versions could have been read as implying that the auditor needed to exhaustively search through audit documentation to prove that there was no relevant matter that should be tested for inconsistencies.
13. Accordingly, the Task Force notes the following with respect to the key work effort paragraphs:
 - (a) Paragraph 12 requires the auditor to perform three clear and specific types of work effort: a consistency check with the financial statements, a consistency check with the auditor’s knowledge gained during the course of the audit, and, finally, remaining alert for other indications that the other information is apparently materially incorrectly stated or otherwise misleading.
 - (b) In addition to the requirement in paragraph 12(a) to consider whether there is an apparent material inconsistency between the other information and the financial statements, paragraph 13 requires the auditor to perform limited procedures to evaluate the consistency of the other information with the financial statements. “Limited” in this context refers to the extent of procedures, as the auditor is not required to do an assurance level of work on the other information.
 - (c) The term “auditor’s knowledge gained during the course of the audit” in paragraph 12(b) of the revised ISA has been used instead of the previous term “understanding of the entity and its environment”, as “knowledge” is seen to be a broader concept that will provide the basis for a higher quality consistency check. In recognition of the fact that ISAs use the term “the

- auditor” to variously mean the engagement partner, the members of the engagement team or, as applicable, the firm, the term “gained during the course of the audit” limits which knowledge needs to be applied to avoid creating an obligation to have, at the extreme, every member of the firm read and consider all the other information for every audit – which would be inefficient and impractical. While there is no requirement to perform procedures under paragraph 12(b), application material makes clear that, in addition to using the auditor’s own recollection, professional judgment is needed in deciding whether to refer to audit documentation or to direct inquiries to the members of the engagement team or component auditors (for example, when the other information contains an amount or other item relating to tax, referring this matter to the member of the engagement team who performed the tax work on the audit). The application material also states that it is neither necessary nor practicable for the auditor to reference every matter in the other information to audit documentation to make clear that the ISA does not require an exhaustive search of the audit documentation *(see paragraphs A31–A33 of Agenda Item B.1)*.
- (d) The term “remain alert of other indications that the other information is apparently materially incorrectly stated or is otherwise misleading” will help clarify, and set boundaries around, the work effort in respect of other information that is neither comparable to the financial statements or to the auditor’s knowledge – that is, the elements of the other information to which the auditor can add the least value.
14. *Paragraph 14 of Agenda Item B.1* also requires that when the auditor identifies such a material inconsistency, or becomes aware of other information that is apparently materially incorrectly stated or otherwise misleading, to determine whether:
- (a) A material misstatement of the other information exists – the auditor’s responses to this are addressed in *paragraphs 15–17 of Agenda Item B.1*;
- (b) A material misstatement in the financial statements exists – the auditor’s responses to this are addressed in *paragraph 18 of Agenda Item B.1*; and
- (c) The auditor’s understanding of the entity and its environment needs to be updated – *the auditor’s responses to this are addressed in paragraph 18 of Agenda Item B.1*.

Matter for CAG Consideration

2. Representatives are asked to provide their views on the clarity and appropriateness of the proposed requirements relating the auditor’s work effort.

C. Reporting

Section C-I: Illustrative Reports

15. *Paragraph A49 of Agenda Item B.1* contains the following illustrative statement for the auditor’s report:

The following is an example of a statement in the auditor’s report when the auditor has received all or part of the other information by the date of the auditor’s report and has not identified a material misstatement of the other information, or has

identified a material misstatement of the other information which has been corrected:

Other Information [or another title if appropriate such as “Information other than the financial statements and auditor’s report thereon”]

The annual report¹⁰ contains the financial statements, this auditor’s report thereon, and other information.¹¹

Our responsibility is to read the other information and to consider, through performing limited procedures, whether there is an apparent material inconsistency between the other information and the financial statements. In reading the other information, we also consider whether there is an apparent material inconsistency with our knowledge gained during the course of the audit and remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. If we determine that the other information is materially misstated we are required to report that fact. We have nothing to report in this regard.

However, we have not audited or reviewed the other information and accordingly do not express any form of assurance conclusion on it.

16. The above illustrative statement addresses points noted by Representatives and others during previous discussions of proposed ISA 720 (Revised). Firstly, it identifies all the other information read by the auditor up to the date of the auditor’s report. Secondly, it provides an explanation of the auditor’s responsibilities with respect to the other information, which is explicitly linked to the terminology used in the ISA to describe the auditor’s work effort to avoid increasing the expectations gap.

Section C-II: Reporting on Other Information Obtained after the Date of the Auditor’s Report

17. While proposed ISA 720 (Revised) continues to require the auditor to read and consider other information obtained after the date of the auditor’s report, the Task Force has explored several courses of action with respect to reporting on such other information. The options considered by the Task Force included:
- Mandating identification of the other information expected to be obtained after the date of the auditor’s report (See Appendix 2 for an illustration of the statement that might be made under this option).
 - Mandating reissuance of the auditor’s report, unless prohibited by law or regulation, when other information is obtained after the date of the auditor’s report and there is a material misstatement in that other information.
 - Not requiring identification of, or reporting on, other information obtained after the date of the auditor’s report, but continuing to require the auditor to read and consider such other information.

¹⁰ Use another term if appropriate.

¹¹ A more specific description of the other information, such as “the management report and chair’s statement,” may be used to identify the other information.

18. The Task Force's explorations showed that identifying or reporting on such other information would be problematic for several reasons:
- Firstly, national auditor reporting practices and deadlines for annual reports vary widely between and within jurisdictions. For example, in some jurisdictions, the auditor is not permitted to amend or reissue the auditor's report, even in circumstances when the auditor determines that other information obtained after the date of the auditor's report is materially misstated. This makes it difficult, perhaps impossible, to develop reporting requirements at an international level that are both practical and understandable to readers of the ISA—any proposed requirement would need to address a wide range of contingencies and competing obligations or risk creating confusion for both users and auditors.
 - Secondly, in light of the inability to mandate reporting in all circumstances, the Task Force believes that the sections of the illustrative statement addressing other information obtained after the date of the auditor's report (as shown in [Appendix 2](#)) would be of little value to users for two reasons:
 - (a) The auditor could only identify in the auditor's report the other information that the auditor expects to receive. However, as production of the other information is dependent on management and may include reports not required by law or regulation, the other information may never be produced by the entity and, hence, never read and considered by the auditor.
 - (b) If other information received after the date of the auditor's report is materially misstated, the auditor cannot always reissue the report to include a modified statement (as noted in the previous bullet). Accordingly, proposed ISA 720 (Revised) requires the auditor to take appropriate action, taking into account the auditor's legal rights and obligations. Therefore, the only statement that can be made with complete confidence is that the auditor will raise the material misstatement of the other information with those charged with governance (as this is a required action under [paragraph 15\(b\) of Agenda Item B.1](#)). Thus, users would be left unknowing whether the auditor has identified any material misstatement of the other information—potentially increasing the expectations gap.
 - Finally, many countries do not permit “dual dating” (when the auditor amends the auditor's report to include an additional date restricted to that amendment), meaning that reporting on such other information may, all other things being equal, trigger a requirement to extend the subsequent event procedures in respect of the whole financial statement audit because of the need to re-issue the auditor's report for the non-assurance work in respect of only the other information. In some jurisdictions and circumstances, this would effectively result in a significant extension of the audit, with associated cost implications, due to the timing of the reporting deadline for other information being after the date of the financial statements.
19. For these reasons, the Task Force believes that requirements for the auditor to report on other information obtained after the date of the auditor's report would be difficult to establish in an international standard for application in different national contexts. The Task Force notes that the nature and practicability of any such reporting obligation may best be determined at the national

level, if such reporting is assessed as useful in a particular national context. Further, the Task Force noted that commentators on the original exposure draft of ISA 720 (Revised) believed that the ISA should be clear about what the auditor was required to do – and mandating such reporting introduces a further degree of complexity which is difficult to reconcile with the calls for a simpler and clearer ISA 720.

Matters for CAG Consideration

3. Representatives are asked to share their views on the proposed illustrative statement outlined in paragraph 15 above.
4. Representatives are asked to share their views on the Task Force's proposal to require auditors to read and consider the other information obtained after the date of the auditor's report, but not to identify the expected other information or to mandate reissuance of the auditor's report if such other information contains a material misstatement.

D. Other Matters

Conforming and Consequential Amendments

20. The Task Force has considered how other ISAs address the concept of "other information" and accordingly is proposing conforming and consequential amendments to the following ISAs for the following reasons:
 - ISA 210 – To include reference to other information in the example engagement letter, including the auditor's new requirement to report on other information received prior to the date of the auditor's report.
 - ISA 230 – To clarify that amendments to the audit documentation may take place after the assembly of the final audit file has been completed if other information is obtained after the date of the auditor's report.
 - ISA 260 – To highlight that discussions with those charged with governance may include identifying the other information and the planned timing of its issuance.
 - ISA 560 – To make clear that ISA 560 does not apply to other information, but that such other information may bring to light a subsequent event that would be within the scope of ISA 560. Application material also makes clear that, while the auditor has no obligation to perform any audit procedures regarding the financial statements after the financial statements have been issued, ISA 720 (Revised) contains requirements and guidance with respect to the other information obtained after the date of the auditor's report.

In addition, conforming and consequential amendments are proposed to ISA 450, ISA 700, and ISA 810 will need conforming amendments to update references to ISA 720 to the terminology used in proposed ISA 720 (Revised). The *Glossary of Terms* will also be updated for the revised definitions used in proposed ISA 720 (Revised).

Consideration of the Need to Re-Expose

21. The IAASB's due process notes¹² *"After approving the final revised content of an exposed international pronouncement, the [IAASB] votes on whether there has been substantial change to the exposed document such that re-exposure is necessary."* Situations that constitute potential grounds for a decision to re-expose include substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion.
22. The Task Force notes that the current proposed ISA 720 (Revised) differs markedly from that exposed in November 2012, in particular in relation to the objectives of the auditor, defined terms, work effort and reporting.
23. The Task Force believes that the changes made are substantial. Accordingly, the Task Force will recommend to the IAASB that the ISA be re-exposed to allow commentators to make their views on these proposals known to the IAASB prior to finalizing the ISA.

Matters for CAG Consideration

5. Representatives are invited to raise any other comments on the proposed ISA 720 (Revised) they believe may be relevant to the IAASB.

IAASB Interaction with the IAASB CAG

24. The substantive issues being raised on the project for the purposes of the March 2014 IAASB meeting are included in this paper. Accordingly, this serves as the final discussion of the project prior to its anticipated approval for re-exposure by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of proposed ISA 720 (Revised). Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – IAASB CAG PAPER

- | | |
|-----------------|--|
| Agenda Item B.1 | Proposed ISA 720 (Revised) – dated February 2014 (Clean) |
| Agenda Item B.2 | Comparison of Key Elements of Proposed ISA 720 (Revised) since September 2013 CAG Discussion |

Material Presented – For IAASB CAG Reference Purposes Only

- Agenda Item 2-A of the March 2014 IAASB Meeting – ISA [\[Links Pending\]](#)
720 Issues and IAASB Task Force Proposals

¹² www.ifac.org/sites/default/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

Agenda Item 2-D of the March 2014 IAASB Meeting –
Proposed Conforming and Consequential Amendments to
Other ISAs

[\[Links Pending\]](#)

Appendix 1

Project History

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

Summary

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

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 Standard (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):</p>

<http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211>

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>

September 2010

See IAASB CAG meeting material: (in Agenda Item M of the following):

<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&ViewCat=1364>

See CAG meeting minutes (in Agenda Item M of the following):

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186>

See report back on September 2010 CAG meeting (in paragraph 6 of the following):

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094>

March 2011

See IAASB CAG meeting material: (in Agenda Item O of the following):

<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&ViewCat=1493>

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>

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>

September 2011

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>

See CAG meeting minutes (in Agenda Item F of the following):

http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-Draft_September_2011_Public_Minutes-Marked-v3.pdf

March 2012

See IAASB CAG meeting material: (in Agenda Item E6 of the following):

http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf

See CAG meeting minutes (in Agenda Item E of the following):

<http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG->

	Agenda Item A Draft March%202012_Public%20Minutes-final-marked.pdf
<p>Consideration of Comments Received on Exposure</p>	<p><u>September 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Item C of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C_ISA_720-Issues-v3.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C1_ISA_720-v3.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_C2_ISA%20720-Prop_Conseq_Conform_Amend-v3.pdf</p> <p>See CAG meeting minutes (in Agenda Item C of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/April%202013%20IAASB%20CAG%20Public%20Minutes%20a%20Approved.pdf</p> <p><u>September 2013</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130823-IAASBCAG-Agenda_Item_B1-ISA_720_Cover-clean-final.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130910-IAASBCAG-Agenda_Item_B_ISA_720-final_0.pdf</p> <p>See report back on September 2013 CAG meeting in the <i>September 2013 CAG Discussion</i> section of this paper.</p> <p>See draft March 2014 CAG meeting minutes at Agenda Item A.</p>
<p>Approval / Consideration of Re-Exposure</p>	<p>This serves as the final discussion of the project prior to its anticipated approval by the IAASB and consideration of the need for re-exposure.</p>

Appendix 2

Illustration of Possible Statement in Auditor’s Report When Part or All Other Information is Obtained after the Date of the Auditor’s Report

1. As noted in Section C-II, the Task Force considered, but rejected, the option of mandating reissuance of the auditor’s report, unless prohibited by law or regulation, when other information is obtained after the date of the auditor’s report and there is a material misstatement in that other information.
2. The following is an example of an illustrative statement developed by the Task Force in its exploration of this option. It is provided to assist Representatives in responding to Question 4 in Section C-II:

Other Information [or another title if appropriate such as “Information other than the financial statements and auditor’s report thereon”]

The other information received at the date of this auditor’s report comprises X report and Y report.¹³

Our responsibility is to read the other information and to consider, through performing limited procedures, whether there is an apparent material inconsistency between the other information and the financial statements. In reading the other information, we also consider whether there is an apparent material inconsistency with our knowledge gained during the course of the audit and remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. If we determine that the other information is materially misstated we are required to report that fact. We have nothing to report in this regard.

However, we have not audited or reviewed the other information and accordingly do not express any form of assurance conclusion on it.

At the date of this auditor’s report, we have not received Z report, which will also be part of the other information [and in which we expect this auditor’s report to be presented]. Our responsibility with respect to Z report, when received, is as described above. We are not required to reissue our auditor’s report if we identify that Z report is materially misstated, however, we intend to [report that matter to those charged with governance and/or describe other appropriate action the auditor would expect to take].

¹³ A more specific description of the other information, such as “the management report and chair’s statement,” may be used to identify the other information.