

**Exposure Draft**

April 2014

*Comments due: July 18, 2014*

*Proposed International Standard on Auditing  
(ISA) 720 (Revised)*

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The Auditor's Responsibilities  
Relating to Other Information

Proposed Consequential and  
Conforming Amendments to Other  
ISAs

**IAASB**

International Auditing  
and Assurance  
Standards Board™

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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## REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by July 18, 2014.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded free of charge from the IAASB website: [www.iaasb.org](http://www.iaasb.org). The approved text is published in the English language.

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# EXPLANATORY MEMORANDUM

## Introduction

1. This memorandum provides background to, and an explanation of, proposed International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISA in March 2014 for re-exposure.

## Background

2. Over recent years there have been significant developments in corporate reporting, particularly in relation to companies' annual reports, as well as the importance ascribed by users to the information in annual reports beyond the audited financial statements and the auditor's report thereon. The weight that users place on this other information, and the need for increased clarity regarding the auditor's involvement with such other information, has notably increased since extant ISA 720 was issued. In light of these developments, the IAASB sought to revise ISA 720 to bring greater clarity and enhanced consistency around the world regarding the auditor's responsibilities related to other information.
3. In November 2012, the IAASB exposed for public comment proposed ISA 720 (Revised) (ED-720 (2012)).<sup>1</sup> Overall, respondents to that exposure draft supported the IAASB's intention of strengthening and clarifying the auditor's responsibilities with respect to other information. There was also support for the IAASB clarifying the scope of the documents covered by ISA 720 and broadening the auditor's responsibilities when reading the other information. Further, there was broad support for introducing a separate section in the auditor's report that would provide transparency about the auditor's responsibilities relating to other information.
4. However, significant concerns were raised about the way in which the specific proposals of ED-720 (2012) were formulated. In general, respondents found the proposals did not clearly articulate the auditor's objectives, the scope of documents covered, and the required work effort expected from the auditor. Some respondents also believed that the proposals would not be workable in practice or would lead to divergent practices, both among auditors and between jurisdictions – and thereby result in unintended consequences that would run contrary to the benefits sought by the IAASB.
5. Due to the significance of the comments received, and the changes made to the proposed ISA based on those comments, the IAASB concluded that re-exposure of the proposed ISA is necessary.

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<sup>1</sup> 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*

## Guide for Respondents

The IAASB has considered carefully the responses to ED-720 (2012), which have resulted in many significant changes in proposed ISA 720 (Revised). As a result, the IAASB welcomes comments on all matters addressed in this exposure draft, but especially those identified in the Request for Comments below.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view as this cannot always be inferred when not stated. For respondents that commented on ED-720 (2012), it would be especially helpful to indicate whether proposed ISA 720 (Revised) addresses concerns previously raised.

## Significant Matters

### Scope of Other Information

6. ED-720 (2012) defined the scope of other information to be addressed by the auditor by reference to the purpose of the documents, and by way of certain new concepts such as “accompanying documents” and “initial release.” Respondents asked that the IAASB reconsider its approach as, among other concerns, it was seen as being overly complex to apply and would place an open-ended obligation on the auditor with no time limit on which documents would be included in scope.
7. Based on the comments received, the IAASB concluded that the ISA should define the scope of other information by reference to information included in an entity’s “annual report.” The IAASB also acknowledged that the ISA should be capable of being applied in light of corporate reporting regimes and practices in a wide variety of jurisdictions and circumstances.
8. Accordingly, the proposed ISA includes a definition of an annual report which, among other matters, recognizes that an annual report is prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, and the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon.
9. The definition of an annual report also notes that it may be a single document or a combination of documents, and application material notes that law, regulation or custom may define the annual report in a particular jurisdiction. The definition of an annual report acknowledges that the content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions. In addition, the ISA includes application material providing examples of documents that may form part of the annual report, as well as examples of reports that, when issued separately, are not typically part of the combination of documents that comprise an annual report, and that are, therefore, not other information within the scope of the ISA.
10. The IAASB believes that the concept of an annual report is well understood in most jurisdictions and therefore the definition in the proposed standard should be capable of being easily applied.<sup>2</sup>

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<sup>2</sup> There may be a greater level of prescription of the content of an annual report for certain entities in a given jurisdiction, such as for listed or public sector entities, while greater variability may be permitted in reporting for other entities, such as private entities.

The proposed ISA also requires the auditor to determine, through discussion with management, which documents comprise the entity's annual report and therefore comprise the other information. This formalizes both the determination of the scope of other information and the anticipated timing of the auditor obtaining the documents.

11. In deciding to focus on annual reports to define the scope of the proposed ISA, the IAASB debated other alternatives, such as defining other information by reference only to the purpose or content of the documents. However, consistent with the input provided by respondents to ED-720 (2012), the IAASB concluded that approaches like these had many drawbacks and few advantages.
12. Largely consistent with the ED-720 (2012), proposed ISA 720 (Revised) excludes preliminary announcements of financial information and securities offering documents (including prospectuses) from the scope of the ISA. The IAASB reaffirmed its view of the appropriateness of this decision, taking into account feedback from respondents noting that national law or regulation typically addresses the auditor's responsibilities in relation to these documents and that there is potential for significant conflict with such law or regulation.

### **The Nature and Extent of the Auditor's Responsibilities Relating to Other Information**

#### *Objectives and Focus of the Auditor's Work Relating to Other Information*

13. Respondents to ED-720 (2012) expressed significant concern that the objectives as stated in the ISA, together with the requirements addressing the auditor's work effort, appeared to expand the auditor's involvement with respect to other information significantly beyond what could be reasonably accomplished in the context of the financial statement audit. It was also observed that the proposed work effort requirements would likely result in ambiguity as to the nature and extent of work to be performed. In turn, this would make it difficult to describe in the auditor's report the auditor's responsibilities with enough precision to enable a user to understand what work had been performed.
14. The IAASB accepted that ISA 720 (Revised) should be as clear and understandable as possible regarding the auditor's obligations with respect to the other information in the context of the audit of the financial statements. The IAASB had not intended for ED-720 (2012) to imply that assurance was obtained on the other information or that the scope of an audit of financial statements was being expanded, but noted that respondents had found this unclear in ED-720 (2012).
15. In revisiting the objectives and requirements to improve the clarity of the proposals, the IAASB considered a view expressed by some that the auditor's responsibilities under ISA 720 should focus on material inconsistencies between the financial statements and the other information that may undermine the credibility of the financial statements—an approach seen by some as better aligned with the auditor's overall responsibilities under ISA 200.<sup>3</sup>
16. The IAASB accepted that this was an important element of the auditor's responsibilities under ISA 720. Nonetheless, it also considered that the auditor's consideration of the other information, informed by the knowledge obtained by the auditor during the course of the audit, is of value to users.

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<sup>3</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

17. After careful deliberation, the IAASB concluded that there should be a “raising of the bar”, though it should not go so far as to require the auditor to obtain assurance on the other information. The IAASB concluded that this should be done through having a requirement for the auditor to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit, and requiring the auditor to remain alert for other indications that the other information appears to be materially misstated. Accordingly, the proposed ISA contains the following key enhancements.

#### Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements

18. As the basis for considering whether there is a material inconsistency between the other information and the financial statements, the IAASB concluded that the auditor should be required to perform limited procedures to evaluate the consistency of the other information with the financial statements.<sup>4</sup> In deliberating this proposal, the IAASB noted the need to respond to calls for a stronger focus on the consistency of the other information with the financial statements (including clearer requirements on the level of work expected), but at the same time recognize that the auditor’s involvement with the other information does not rise to the level of an assurance engagement.
19. In support of this requirement, the IAASB has included in application material examples of procedures that the auditor may perform. The application material also explains that professional judgment is needed in selecting amounts or other items in the other information for the purpose of evaluating the consistency between the other information and the financial statements.<sup>5</sup>
20. In deliberating this requirement, the IAASB considered, but did not support, an approach of specifying the procedures that would be required to evaluate the consistency of the other information with the financial statements. In making this decision, the IAASB focused on the importance of setting requirements at a principles-level consistent with other ISAs. The IAASB also noted that the inclusion of specific procedures in the requirement may lead to an unnecessary level of work and overly focus the auditor’s attention on some aspects of the other information (such as quantitative aspects) at the expense of other aspects of the other information (such as qualitative aspects).

#### Considering Whether There is a Material Inconsistency between the Other Information and the Auditor’s Knowledge Obtained During the Course of the Audit

21. The IAASB also concluded that the auditor should be required to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit.<sup>6</sup> Application material explains that the auditor’s knowledge obtained during the course of the audit includes the auditor’s understanding of the entity and its environment, including the entity’s internal control, obtained in accordance with ISA 315 (Revised).<sup>7</sup>

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<sup>4</sup> See paragraph 15 of proposed ISA 720 (Revised).

<sup>5</sup> See paragraphs A23–A24 of proposed ISA 720 (Revised).

<sup>6</sup> See paragraph 14(b) of proposed ISA 720 (Revised).

<sup>7</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*



22. In proposing this requirement, the IAASB's intent is for the auditor to actively consider – that is, through the auditor's informed reading – whether such a material inconsistency exists. It is not the IAASB's intent that procedures must be performed (as, in many cases, the auditor may be able to rely on the auditor's findings from procedures carried out during the audit or there may be no procedure that can be performed other than reflecting upon the consistency of the other information with the auditor's knowledge obtained during the course of the audit). Nor is it the IAASB's intent for the auditor to obtain evidence beyond that necessary to form an opinion on the financial statements to support the auditor's consideration. Accordingly, the IAASB concluded that the requirement to "consider" is appropriate, and that alternate verbs would imply a different obligation than is intended.
23. The proposed ISA includes application material that explains that the auditor uses professional judgment in deciding whether, and the extent to which, the auditor refers to audit documentation, directs inquiries to members of the engagement team or a component auditor, or decides to base the consideration on the auditor's recollection alone.<sup>8</sup> Application material also describes the factors that may be taken into account when determining the appropriate individuals to read and consider the other information (based, for example, on the experience and knowledge of the team members and the degree of judgment involved).
24. The IAASB also considered, but did not support, the notion that the auditor should consider whether there is a material inconsistency between the other information and any knowledge possessed by the auditor, whether obtained in the course of the audit or otherwise. As the definition of the "auditor" includes the "engagement partner or other members of the engagement team, or, as applicable, the firm," the expression "knowledge of the auditor" without using the qualifier "obtained during the audit" could be interpreted as requiring firms to establish processes to consider whether there is a material inconsistency between the other information and the knowledge possessed by anyone in the firm, which would be impracticable.

#### Remaining Alert for Other Indications that the Other Information Appears to be Materially Misstated

25. Finally, proposed ISA 720 (Revised) requires the auditor to remain alert for other indications that the other information appears to be materially misstated. In part, this recognizes the auditor's ethical obligation not to be knowingly associated with other information that is otherwise misleading,<sup>9</sup> but it also recognizes that those individuals reading and considering the other information may have relevant knowledge that goes beyond the knowledge obtained during the course of the audit.

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<sup>8</sup> See paragraph A30–32 of proposed ISA 720 (Revised).

<sup>9</sup> International Ethics Standards Board for Accountants (IESBA), *Code of Ethics for Professional Accountants*, Paragraph 110.2 which 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. When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information."

*Material Inconsistencies and Material Misstatements of the Other Information*

26. Proposed ISA 720 (Revised) requires the auditor to consider whether there is a material inconsistency between the other information and the financial statements or the auditor's knowledge obtained during the course of the audit.<sup>10</sup> The term "inconsistency" is not defined, allowing it to take its ordinary dictionary meaning of "an element not being compatible with another fact or claim" or "not in keeping with." This addresses the concern expressed by some respondents to ED-720 (2012) that the proposed definition of "inconsistency in the other information" was too subjective, could lead to divergence in practice, and was different from what a user may have interpreted from the ordinary meaning of the term.
27. If the auditor identifies that a material inconsistency appears to exist or becomes aware of other information that appears to be materially misstated, paragraph 16 of proposed ISA 720 (Revised) requires the auditor to determine whether:
- (a) A material misstatement of the other information exists;
  - (b) A material misstatement in the financial statements exists; or
  - (c) The auditor's understanding of the entity and its environment needs to be updated.
28. Proposed ISA 720 (Revised) defines a misstatement of the other information as other information that is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter).<sup>11</sup> The definition also includes relevant considerations for determining whether a misstatement is material. The IAASB believes that the term "misstatement of the other information" better encapsulates both factual and qualitative misstatements than the terms in extant ISA 720 (which uses the term "misstatement of fact") or in ED-720 (2012) (which used the term "inconsistency in the other information," which respondents noted was too abstract and conceptually flawed when used as a defined term).
29. In the IAASB's deliberations on paragraph 16 of the proposed ISA noted above (and related paragraph 14), there was a view that the proposed paragraph would essentially require an auditor to perform the same work effort on other information when a material inconsistency or a material misstatement of other information *appears to exist*, and that the phrase "whether an *apparent* material misstatement of other information exists" would better reflect the nature of the auditor's responsibilities in light of the differing natures of other information. It was also noted that this would be more consistent with extant ISA 720. The IAASB believes, however, that the wording of paragraph 16 as proposed sets an appropriate threshold for triggering a response by the auditor.

*Obligation Regarding Other Information Obtained After the Date of the Auditor's Report*

30. Consistent with extant ISA 720 and ED-720 (2012), proposed ISA 720 (Revised) notes that the auditor's responsibilities relating to other information, other than the reporting responsibilities, apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
31. Based on comments received about a perceived lack of clarity in relation to the practical considerations and actions expected of the auditor if other information is obtained after the date of

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<sup>10</sup> See paragraph 14(a)–(b) of proposed ISA 720 (Revised).

<sup>11</sup> See paragraph 12(b) of proposed ISA 720 (Revised).

the auditor's report, the IAASB has clearly set out the auditor's obligations when dealing with such other information, and has proposed consequential amendments to clarify the relationship between ISA 560<sup>12</sup> and the proposed ISA 720 (Revised). The proposed consequential amendments result in ISA 720 addressing the auditor's responsibilities for other information obtained after the date of the auditor's report and ISA 560 dealing with circumstances when such other information may bring to light a subsequent event related to the financial statements.

32. Paragraphs 41–44 below discuss the IAASB's consideration of the reporting implications of such other information.

#### *Relationship with ISA 200*

33. Notwithstanding the above proposals, the IAASB also recognizes that the objectives of the auditor stated in proposed ISA 720 (Revised) need to be understood in the context of the overall objectives of the auditor as stated in ISA 200. Accordingly, the IAASB has included introductory material in the proposed standard that explains that the auditor's opinion on the financial statements does not cover the other information, nor does ISA 720 (Revised) require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

#### **Implications for the Auditor's Report**

34. Respondents to ED-720 (2012) broadly supported the IAASB's reporting requirements regarding other information as a way of providing greater transparency to the work carried out by auditors on other information. However, concerns were expressed about aspects of the proposals to report on other information, including the conclusion, and the potential for entities to withhold the other information until after the date of the auditor's report to avoid the auditor reporting on it in the auditor's report.
35. Consistent with ED-720 (2012), proposed ISA 720 (Revised) requires that, when the auditor has obtained other information prior to the date of the auditor's report, the auditor shall include a separate section in the auditor's report addressing other information.<sup>13</sup> In this section, the auditor is required to identify the other information obtained prior to the date of the auditor's report, state that the auditor has not audited the other information and does not express an audit opinion or any form of assurance conclusion thereon, and describe the auditor's responsibilities with respect to the other information.
36. If no material misstatement of the other information has been identified, the IAASB determined that the conclusion required regarding the other information should take the form of a statement that the auditor has nothing to report. The IAASB believes this form is appropriate in light of the auditor's responsibilities, and minimizes the potential for an erroneous interpretation that assurance has been obtained – an interpretation that may be taken if a positive or negative form of conclusion was expressed, which was a concern noted by some respondents to ED-720 (2012). If the auditor determines that there is an uncorrected material misstatement in the other information, the auditor is required to describe the material misstatement.
37. As part of its deliberations, the IAASB discussed the concern expressed by some respondents to ED-720 (2012) that some entities may delay providing other information to the auditor in order to

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<sup>12</sup> ISA 560, *Subsequent Events*

<sup>13</sup> See paragraphs 21 and A48 of proposed ISA 720 (Revised).

avoid the auditor's reporting on it, and that the timing of the issuance of the auditor's report should not preclude the auditor from reading and considering, or reporting on, such other information – that is, as a principle, the auditor should not issue the auditor's report until the other documents have been made available to the auditor, and unless law or regulation requires otherwise.

38. The IAASB noted that this concern arises, in part, because of the broad and largely-subjective definition of other information that was proposed in ED-720 (2012). The IAASB notes that the new focus on annual reports as the basis for the definition of other information removes much of that subjectivity and provides an appropriate basis for the auditor to exercise judgment in determining what information should be considered other information. This, together with the proposed requirement in the ISA for the auditor to identify in the auditor's report the documents read and considered prior to the date of the auditor's report, should in most cases enable users to know which documents have been delayed from the norm (for example, when law or regulation requires the release of the other information within a given timeframe); they can then seek an explanation for the delay from the entity.
39. The IAASB did not support withholding release of the auditor's report to allow reporting on as much other information as possible, as suggested by some respondents. In making this decision, the IAASB noted that the auditor is not obtaining assurance on the other information, the other information is not required to be obtained in order for the auditor to express an audit opinion, and some other information may not be released for an extended period of time in accordance with law or regulation or established practice in a jurisdiction. Therefore, the IAASB did not believe that it was in the public interest to delay communication of the auditor's opinion on the financial statements as a result of the non-assurance level of work performed in relation to other information not being completed.

#### *Management Responsibilities*

40. Some respondents to ED-720 (2012) noted that the statement on other information should reference management's responsibilities for the preparation of the other information. The IAASB concluded that such a statement was unnecessary as it is widely understood that management (or those charged with governance, as appropriate) are responsible for the other information. Further, the IAASB noted that including a description of management responsibilities would mean that the section addressing the other information would be disproportionately long in comparison to other sections addressing the audit of financial statements, and would be similar in structure to an assurance report, increasing the risk of creating an erroneous perception that assurance has been obtained on the other information.

#### *Reporting Implications of Other Information Obtained After the Date of the Auditor's Report*

41. Proposed ISA 720 (Revised) continues to require the auditor to read and consider other information (as determined in accordance with the requirements of paragraph 13 of proposed ISA 720 (Revised)) obtained after the date of the auditor's report, but neither requires identification of such other information in the auditor's report nor a description of the action(s) the auditor would take regarding it if the auditor were to determine subsequently that there is a material misstatement of that other information.
42. The IAASB considered whether the auditor should be required to re-issue or amend the auditor's report to enable reporting on such other information received after the date of the auditor's report. The IAASB understands that in many jurisdictions the auditor is either prohibited from re-issuing or

amending the auditor's report after it is issued, or there are no local law or regulation that explicitly address whether reissuance or amendment is permitted. Therefore if the ISA were to require reissuance or amendment of the auditor's report, that may result in conflicts with local law or regulations, and therefore would not address the underlying issue in a globally consistent manner. The IAASB also noted that re-issuance or amendment of the auditor's report also carries with it an elevated risk of implying that assurance had been obtained on the other information.

43. The IAASB also considered mandating identification in the auditor's report of the other information that had not yet been obtained at the date of the auditor's report and the action(s) the auditor would take if the auditor determined that there was a material misstatement of such other information. It was noted that this approach would provide full transparency about the nature and extent of the auditor's responsibilities for other information obtained after the date of the auditor's report and would make the auditor's determination of the document(s) comprising the other information wholly transparent to users. In deciding not to pursue this alternative, the IAASB noted that reference in the auditor's report to the auditor's future actions would be inconsistent with the current focus of other aspects of the auditor's report on the actions the auditor has taken up to the date of the auditor's report. The IAASB also noted the practical difficulty in determining a statement for the auditor's report that would result in consistent reporting practices due to the inconsistencies in the rights and obligations of auditors across jurisdictions.
44. In rejecting the two alternatives noted above, the IAASB focused on the concerns of respondents on ED-720 (2012) that the ISA should be clear about what the auditor is required to do. The IAASB determined that reporting on other information obtained after the date of the auditor's report introduces a further degree of complexity and inconsistency about the auditor's required actions, which is difficult to reconcile with calls for simplicity and clarity in the revision of ISA 720. Instead of these two alternatives, the ISA requires the auditor to take appropriate action, taking into account the auditor's legal rights and obligations. Application material explains some of the actions that may be appropriate in different legal and regulatory contexts.

## **Request for Comments**

While the IAASB welcomes comments on all matters addressed in the exposure draft, the IAASB is seeking comments on the following specific matters:

1. Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.
2. Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.
3. Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.
4. Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matters set out below:

- (a) *Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)*—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).
- (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISA, in particular, on any foreseeable difficulties in applying it in a developing nation environment.
- (c) *Translations*—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.

*Effective Date*—Recognizing that the proposed ISA results in changes to the auditor's report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB's Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 720 (REVISED)

## THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

(Effective for audits of financial statements for periods ending on or after [date])

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## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This ISA is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this ISA are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ISA 200.<sup>1</sup> The requirements in the ISAs are designed to enable the auditor to achieve the objectives specified in the ISAs, and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
3. This ISA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained during the course of the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This ISA may also assist the auditor in complying with relevant ethical requirements<sup>2</sup> that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.
5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge during the course of the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information, other than the reporting responsibilities, apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This ISA does not apply to:
  - (a) Preliminary announcements of financial information; or
  - (b) Securities offering documents, including prospectuses.

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<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> See paragraph 110.2 of the International Ethics Standards Board for Accountants, *Code of Ethics for Professional Accountants*.



8. The auditor's responsibilities under this ISA do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this ISA.

### **Effective Date**

10. This ISA is effective for audits of financial statements for periods ending on or after [date].

### **Objectives**

11. The objectives of the auditor, having read the other information, are:
  - (a) To consider whether there is a material inconsistency between the other information and the financial statements;
  - (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit;
  - (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
  - (d) To report in accordance with this ISA.

### **Definitions**

12. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. The content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions. (Ref: Para. A1–A4)
  - (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter). Misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users.
  - (c) Other information – Financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A5–A7)

## Requirements

### Obtaining the Other Information

13. The auditor shall:
- (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned timing of the issuance of such documents; and
  - (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of those documents. (Ref: Para. A8–A19)

### Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A20–A21)
- (a) Consider whether there is a material inconsistency between the other information and the financial statements; (Ref: Para. A22–A26)
  - (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit; and (Ref: Para. A27–A32)
  - (c) Remain alert for other indications that the other information appears to be materially misstated. (Ref: Para. A33)
15. As the basis for the consideration in paragraph 14(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. (Ref: Para. A22–A26)

### Responding When a Material Inconsistency Appears to Exist or Other Information Appears to be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware of other information that appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether: (Ref: Para. A34–A38)
- (a) A material misstatement of the other information exists;
  - (b) A material misstatement in the financial statements exists; or
  - (c) The auditor's understanding of the entity and its environment needs to be updated.

### *Responding When the Auditor Determines That a Material Misstatement of Other Information Exists*

17. If the auditor determines that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:
- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
  - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

18. If the auditor determines that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A39)
  - (a) Considering the implications for the auditor's report (see paragraph 21(d)(ii)) and communicating with those charged with governance the proposed wording of the statement in the auditor's report; or (Ref: Para. A40)
  - (b) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation. (Ref: Para. A41–A42)
19. If the auditor determines that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
  - (a) Perform the procedures necessary under the circumstances if management agrees to correct the other information; or (Ref: Para. A43)
  - (b) Take appropriate action, taking into account the auditor's legal rights and obligations, if the other information is not corrected after communicating with management and those charged with governance. (Ref: Para. A44–A45)

*Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated*

20. If, as a result of performing the procedures in paragraphs 14–16, the auditor identifies that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISAs. (Ref: Para. A46)

**Reporting**

21. When the auditor has obtained the final version of all or part of the other information prior to the date of the auditor's report, the auditor shall include a separate section under the heading "Other Information", or another title if appropriate, in the auditor's report comprising the following matters: (Ref: Para. A47)
  - (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
  - (b) A statement that the auditor has not audited the other information and accordingly does not express an audit opinion or any form of assurance conclusion thereon.
  - (c) A description of the auditor's responsibilities with respect to the other information;
  - (d) A statement:
    - (i) If the auditor has not determined that there is an uncorrected material misstatement of the other information, that the auditor has nothing to report; or (Ref: Para. A48)
    - (ii) If the auditor has determined that there is an uncorrected material misstatement of the other information that describes the material misstatement. (Ref: Para. A49)

22. When the auditor's opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statement required in paragraph 21(d)(ii). (Ref: Para. A50–A54)

#### *Reporting Prescribed by Law or Regulation*

23. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum: (Ref: Para. A55)
- (a) An identification of the documents containing the other information obtained by the auditor prior to the date of the auditor's report;
  - (b) A description of the auditor's responsibilities with respect to the other information; and
  - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

#### **Documentation**

24. The auditor shall retain in the audit documentation the final version of the other information on which the auditor has performed the work required under this ISA.

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## **Application and Other Explanatory Material**

### **Definitions**

#### *Annual Report* (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. An annual report contains or accompanies the financial statements and the auditor's report thereon. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
  - Chairman's statement.
  - Corporate governance statement.
  - Internal control and risk assessment reports.
- A2. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.

- A3. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective. Examples of reports that, when issued separately, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that are, therefore, not other information within the scope of this ISA, include:
- Separate industry or regulatory reports, such as may be prepared in the banking, insurance, and pension industries.
  - Corporate social responsibility reports.
  - Sustainability reports.
  - Diversity and equal opportunity reports.
  - Product responsibility reports.
  - Labor practices and working conditions reports.
  - Human rights reports.
- A4. Documents that are referred to as integrated reports may or may not be the entity's annual report, or part of the combination of documents that comprise the entity's annual report, depending on their nature, purpose and content, and whether such documents contain or accompany the financial statements and the auditor's report thereon.

*Other Information* (Ref: Para. 12(c))

- A5. The Appendix contains examples of amounts or other items that may be included in the other information.
- A6. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements.<sup>3</sup> As such disclosures are required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this ISA.
- A7. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this ISA.

**Obtaining the Other Information** (Ref: Para. 13)

- A8. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) comprises the annual report. In such cases, the intended audience and purpose of the documents are matters that may be relevant to the auditor's determination of which document(s) comprises the annual report.

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<sup>3</sup> For example, IFRS 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the IFRSs to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

- A9. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or multiple “annual reports” are prepared under different legislation (for example, when an entity is listed in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the “annual reports” form part of the other information. Local law or regulation may provide further guidance in this respect.
- A10. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:
- The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual report) in a timely manner prior to the date of the auditor’s report, or if that is not possible, as soon as practicable and in any case prior to issuance of such information.
  - The possible implications when the other information is obtained after the date of the auditor’s report.
- A11. Such communications may be more appropriate for example:
- In an initial audit engagement.
  - When there has been a change in management.
  - When other information is expected to be obtained after the date of the auditor’s report.
- A12. Where those charged with governance are to approve the other information, the final version of such other information is the one that has been approved by those charged with governance for issuance.
- A13. In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be circumstances where the entity’s annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release. This ISA requires the auditor to identify the other information obtained prior to the date of the auditor’s report in the auditor’s report.
- A14. There may be circumstances where, at the date of the auditor’s report, the entity is considering the development of a document that may be part of the entity’s annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose and timing of such a document. If the auditor is unable to ascertain the purpose and timing of such a document, the document is not considered other information for purposes of this ISA.
- A15. Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to be made to the financial statements, the auditor’s report, or the other information prior to their issuance. The audit engagement letter<sup>4</sup> may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor’s report.

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<sup>4</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph A23

- A16. When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this ISA. The auditor has no responsibility under this ISA to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically.
- A17. The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained the other information.
- A18. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of ISA 560.<sup>5</sup>
- A19. ISA 580<sup>6</sup> establishes requirements and provides guidance on the use of written representations. The auditor may find representations covering the following matters useful:
- That management will inform the auditor of all other information that it expects to issue;
  - That management has provided the auditor with the final version of all other information; and
  - That the financial statements and other information are consistent with one another, and the other information does not contain any material misstatements.

**Reading and Considering the Other Information** (Ref: Para. 14–15)

- A20. The auditor is required by ISA 200<sup>7</sup> to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:
- (a) The financial statements; or
  - (b) The auditor's knowledge obtained during the course of the audit.
- A21. In accordance with ISA 220,<sup>8</sup> the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, factors that may be taken into account when determining the appropriate individuals to address the requirements of paragraph 14–15, include:
- The relative experience of engagement team members.
  - Whether the individuals to be assigned the tasks have the relevant knowledge obtained during the course of the audit to identify inconsistencies between the other information and that knowledge.

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<sup>5</sup> ISA 560, *Subsequent Events*

<sup>6</sup> ISA 580, *Written Representations*

<sup>7</sup> ISA 200, paragraph 15

<sup>8</sup> ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- The degree of judgment involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced members of the engagement team.
- Whether, in the case of a group audit, it is necessary to engage the assistance of a component auditor in addressing the other information related to that component.

*Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements* (Ref: Para. 14(a))

A22. Other information may include amounts or other items 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. Examples of such amounts or other items may include:

- Tables, charts or graphs containing extracts of the financial statements.
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as “Revenue for 20X1 comprised XXX million from product X and YYY million from product Y.”
- Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1.”

A23. The following are examples of limited procedures that the auditor may choose to perform to evaluate the consistency between 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. Determining the nature and extent of procedures is a matter of professional judgment.

- For information that is intended to be the same as information in the financial statements, agreeing the information to the financial statements.
- For information intended to convey the same meaning as disclosures in the financial statements, considering the significance of differences in wording used and whether such differences imply different meanings.
- Obtaining a reconciliation between an item within the other information and the financial statements from management and:
  - Agreeing items in the reconciliation to the financial statements; and
  - Determining whether the calculations within the reconciliation are arithmetically accurate.

A24. The determination of which amounts or other items in the other information to select and the determination of the extent of procedures necessary in the circumstances for the purpose of evaluating the consistency with the financial statements is a matter of professional judgment and may be influenced by:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).



- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate.
- The sensitivity of the other information, for example, share based payments for senior management.

A25. Evaluating the consistency of amounts and other items in the other information includes, when relevant given the nature of the other information, the manner of its presentation compared to the financial statements.

A26. The auditor may find it useful to obtain a reconciliation from management between amounts in the other information and the financial statements.

*Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained During the Course of the Audit (Ref: Para. 14(b))*

A27. Other information may include amounts or items that are related to the auditor's knowledge obtained during the course of the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:

- A disclosure of the units produced, or a table summarizing such production by geographical region.
- A statement that "The company introduced product X and product Y during the year."
- A summary of the locations of the entity's major operations, such as "the entity's major center of operation is in country X, and there are also operations in countries Y and Z."

Paragraph 14(b) requires the auditor to consider whether such amounts and items are materially inconsistent with the auditor's knowledge obtained during the course of the audit.

A28. The auditor's knowledge obtained during the course of the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with ISA 315 (Revised).<sup>9</sup> ISA 315 (Revised) sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:

- (a) The relevant industry, regulatory, and other external factors;
- (b) The nature of the entity;
- (c) The entity's selection and application of accounting policies;
- (d) The entity's objectives and strategies;
- (e) The measurement and review of the entity's financial performance; and
- (f) The entity's internal control.

A29. The auditor's knowledge obtained during the course of the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.

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<sup>9</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 11–12

- A30. When considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit, professional judgment is needed in deciding whether, and the extent to which, the auditor makes reference to auditor documentation, directs inquiries to members of the engagement team or a component auditor, or decides to base the consideration on the auditor's recollection alone.
- A31. For example, the auditor may be able to consider whether there is a material inconsistency in light of, for example, the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit, for example the reading of minutes, without the need to take further action.
- A32. In other cases, the auditor may decide to refer to audit documentation, for example, the documentation of the key elements of the auditor's understanding obtained regarding aspects of the entity and its environment in accordance with ISA 315 (Revised), in order to facilitate the auditor's consideration of whether a material inconsistency exists. However, it is neither necessary nor practicable for the auditor to reference every matter in the other information to audit documentation.

*Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated* (Ref: Para. 14(c))

- A33. Other information may include discussion of matters that extends beyond the auditor's knowledge obtained during the course of the audit. For example, the other information may include statements about the entity's greenhouse gas emissions when that information is unrelated to the financial statements or to the auditor's knowledge obtained during the course of the audit.

**Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated** (Ref: Para. 16)

- A34. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.
- A35. Conversely, the discussion with management may provide further information that confirms that a material misstatement of the other information exists.
- A36. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor determines that the other information contains a statement that is not consistent with the auditor's knowledge obtained during the course of the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained during the course of the audit.
- A37. As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to determine whether a material misstatement of the other information does exist are a matter of the auditor's professional judgment in the circumstances.

A38. In certain circumstances, the auditor may not be able to assess management's responses to the auditor's inquiries and, accordingly, the validity of management's statements in the other information. In these circumstances, the auditor may consider other procedures such as consulting with a qualified third party (for example, an auditor's expert or legal counsel), or requesting management to do so.

*Responding When the Auditor Determines That a Material Misstatement of Other Information Exists* (Ref: Para. 18)

A39. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance is a matter of the auditor's professional judgment. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

*Reporting Implications* (Ref: Para. 18(a))

A40. In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

*Withdrawal from the Engagement* (Ref: Para. 18(b))

A41. Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

*Considerations specific to public sector entities*

A42. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter.

*Responding When Auditor Determines That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report* (Ref: Para. 19)

A43. If other information is obtained after the date of the auditor's report, the auditor determines that it is materially misstated, and management agrees to revise the other information, the auditor's procedures may include reviewing the steps taken by management to communicate with individuals in receipt of the other information, if previously issued, to inform those individuals of the revision.

A44. Taking appropriate action 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 requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

A45. Appropriate actions that the auditor may consider taking, when permitted by law or regulation, may include:

- Reissuing the auditor's report to include a modified statement as per paragraph 21(d)(ii);
- Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared;
- Communicating with a regulator or relevant professional body; or
- Withdrawing from the audit (see also paragraph A41).

Implications of New Information (Ref: Para. 20)

A46. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor's risk assessment.<sup>10</sup>
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.<sup>11</sup>
- The auditor's responsibilities relating to subsequent events.<sup>12</sup>

## Reporting

*Illustrative Statements* (Ref: Para. 21)

A47. When the auditor has not obtained the final version of the other information prior to the date of the auditor's report, this ISA does not require the auditor to include a section in the auditor's report addressing other information.

Illustrative Statement 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

A48. The following is an example of a statement in the auditor's report when the auditor has obtained the final version of 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 other information obtained at the date of this auditor's report is the [information included in the X report,<sup>13</sup> other than the financial statements and the auditor's report thereon.]

We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon.

<sup>10</sup> ISA 315 (Revised), paragraphs 11, 31, and A1

<sup>11</sup> ISA 450, *Evaluation of Misstatements Identified During the Audit*

<sup>12</sup> ISA 560, paragraphs 10 and 14

<sup>13</sup> 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.

Our responsibility is to read this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. 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.

Illustrative Statement When the Auditor Has Determined that a Material Misstatement of the Other Information Exists

- A49. The following is an example of a statement in the auditor's report when the auditor has obtained the final version of all or part of the other information by the date of the auditor's report, has identified a material misstatement of the other information which has not been corrected, and withdrawal from the engagement is not necessary or possible in the circumstances:

Other Information [for another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]

The other information obtained at the date of this auditor's report is the [information included in the X report,<sup>14</sup> other than the financial statements and the auditor's report thereon.]

We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon.

Our responsibility is to read this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. If we determine that the other information is materially misstated, we are required to report that fact. As described below, we have determined that such a circumstance exists.

[Description of material misstatement of the other information]

*Reporting Implications When the Auditor's Opinion on the Financial Statements Is Modified* (Ref: Para. 22)

- A50. A modification of the auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 21(d) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this ISA. In other circumstances, there may be implications for such reporting as described in paragraphs A51–A54.

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<sup>14</sup> 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.

### Qualified Opinion Due to a Material Misstatement in the Financial Statements

A51. In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same reason.

### Qualified Opinion Due to Limitation of Scope

A52. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to determine whether management's description of the matter in the other information contains a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 21(d) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to address whether the auditor has identified material misstatements of the other information. For example:

Other Information [for another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]

The other information obtained at the date of this auditor's report is the [information included in the X report,<sup>15</sup> other than the financial statements and the auditor's report thereon.]

We have not audited the other information and do not express an opinion or any form of assurance conclusion thereon.

Our responsibility is to read this other information and to consider whether there is a material inconsistency between that information and the financial statements, or our knowledge obtained during the course of the audit. In reading the other information, our responsibility is also to remain alert for other indications that the other information appears to be materially misstated. If we determine that the other information is materially misstated, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about [Description of subject of scope limitation]. Accordingly, we are unable to consider whether management's description of this matter in the other information is materially misstated. We have nothing to report regarding the remainder of the other information.

### Adverse Opinion

A53. An adverse opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified. In these circumstances, the auditor may need to appropriately modify the statement required by paragraph 21(d).

### Disclaimer of Opinion

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<sup>15</sup> 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.

A54. When the auditor disclaims an opinion on the financial statement, providing further details about the audit, including other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by [proposed] ISA 705 (Revised),<sup>16</sup> the auditor's report does not include a section addressing the reporting requirements under this ISA.

*Reporting Prescribed by Law or Regulation (Ref: Para. 23)*

A55. ISA 200<sup>17</sup> explains that the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs. Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this ISA. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this ISA relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 23 is included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this ISA, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

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<sup>16</sup> [Proposed] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>17</sup> ISA 200, paragraph A55

**Appendix**

(Ref: Para. 14, A5)

**Examples of Amounts or Other Items that May be Included in the Other Information**

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

**Amounts**

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.

**Other Items**

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.



- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

# PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAs

**Note:**

*When relevant, proposed changes to the standards arising from the Auditor Reporting Exposure Draft<sup>1</sup> are shown for reference and have been highlighted in grey. However, these proposed changes may change when the Auditor Reporting standards are finalized. The footnote numbering in this document does not necessarily correlate with the footnotes as currently included in the extant ISAs.*

## ISA 210, *Agreeing the Terms of Audit Engagements*

### Appendix 1

#### Example of an Audit Engagement Letter

...

As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.

In addition, we will request that management provide us with information about the document(s) that comprise the entity's [annual report], the planned timing of the issuance of these documents, as well as providing us with the final version of these documents as soon as they are available and, if possible, prior to the date of our auditor's report.]

...

*[Reporting]*

*[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting requirements regarding other information in accordance with ISA 720 (Revised).]*<sup>2</sup>

The form and content of our report may need to be amended in the light of our audit findings.

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<sup>1</sup> <https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international>

<sup>2</sup> This paragraph is also subject to proposed changes arising from the Auditor Reporting project.

### ISA 230, *Audit Documentation*

[NB – This paragraph has been included for reference purposes only]

16. In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document: (Ref: Para. A24)
- (a) The specific reasons for making them; and
  - (b) When and by whom they were made and reviewed.

A24. ~~An e~~Examples of a circumstances in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed include:

- ~~Is the need to~~ When clarifying existing audit documentation in response to arising from comments received during monitoring inspections performed by internal or external parties.
- When, in accordance with ISA 720 (Revised),<sup>3</sup> the auditor is required to retain in the audit documentation the final version of other information received after the date of the auditor's report.

...

### Appendix

(Ref: Para. 1)

### Specific Audit Documentation Requirements in Other ISAs

This appendix identifies paragraphs in other ISAs in effect for audits of financial statements for periods beginning on or after December 15, 2009 that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

...

- ISA 610 (Revised), *Using the Work of Internal Auditors* – paragraph 24
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 24

\*\*\*

### Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*

#### Matters to Be Communicated

*Planned Scope and Timing of the Audit* (Ref: Para. 15)

A13. Other planning matters that it may be appropriate to discuss with those charged with governance include:

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<sup>3</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

...

- The responses of those charged with governance to previous communications with the auditor.
- Details of the documents comprising the other information (as defined in ISA 720 (Revised)) that the entity intends to issue and when the documents are expected to be made available to the auditor.

\*\*\*

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(d))

A20. Other significant matters arising ~~from~~during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of the other information of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.

\*\*\*

## Appendix 1

(Ref: Para. 3)

This appendix identifies paragraphs in ISQC 1<sup>4</sup> and other ISAs in effect for audits of financial statements for periods [beginning/ending on or after date December 15, 2009] that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

...

- *ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraphs 17(b) and 18(a)~~10, 13 and 16~~

\*\*\*

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

**Evaluating the Effect of Uncorrected Misstatements** (Ref: Para. 10–11)

A16. The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- ...
- Affects other information that will be communicated in the annual report~~documents containing the audited financial statements~~ (for example, information to be included in a “Management Discussion and Analysis” or an “Operating and Financial Review”) that may reasonably be expected to influence the economic decisions of the users of the financial statements. ISA

<sup>4</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

720 (Revised)<sup>5</sup> deals with the auditor's responsibilities relating to consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.

\*\*\*

## ISA 500, *Audit Evidence*

### Definitions

5. For purposes of the ISAs, the following terms have the meanings attributed below:
- (c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other types of information.

\*\*\*

## ISA 560, *Subsequent Events*

### Introduction

#### *Scope of this ISA*

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in ISA 720 (Revised).<sup>6</sup> However, such other information may bring to light a subsequent event that is within the scope of this ISA. (Ref: Para. A1)

...

*[NB – This paragraph has been included for reference purposes only]*

10. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: (Ref: Para. A11)
- (a) Discuss the matter with management and, where appropriate, those charged with governance;
  - (b) Determine whether the financial statements need amendment and, if so,
  - (c) Inquire how management intends to address the matter in the financial statements.

<sup>5</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

<sup>6</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

**Facts Which Become Known to the Auditor after the Date of the Auditor’s Report but before the Date the Financial Statements Are Issued**

*Implications of Other Information Obtained after the Date of the Auditor’s Report* (Ref: Para. 10)

A10A. The auditor’s obligations regarding other information received after the date of the auditor’s report are addressed in ISA 720 (Revised). While the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report, ISA 720 (Revised) contains requirements and guidance with respect to other information obtained after the date of the auditor’s report.

...

*[NB – This paragraph has been included for reference purposes only]*

14. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor’s report, may have caused the auditor to amend the auditor’s report, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, those charged with governance;
- (b) Determine whether the financial statements need amendment; and, if so,
- (c) Inquire how management intends to address the matter in the financial statements.

**Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued**

*Implications of Other Information Received after the Financial Statements Have Been Issued* (Ref: Para. 14)

A16A. The auditor’s obligations regarding other information received after the date of the auditor’s report are addressed in ISA 720 (Revised). 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 other information obtained after the date of the auditor’s report.

\*\*\*

**[Proposed] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements***

A65. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities ~~to read that information to identify material inconsistencies with the audited financial statements. The auditor’s responsibilities with respect to unaudited supplementary information are consistent with those~~ described in proposed ISA 720 (Revised).<sup>7</sup>

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<sup>7</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

## ISA 810, Engagements to Report on Summary Financial Statements

### Other Information in Documents Containing Summary Financial Statements

24. The auditor shall read and consider the other information, other than the summary financial statements, included in a document containing the summary financial statements and related auditor's report to consider whether there is identify a material inconsistencyies between the other information and, if any, with the summary financial statements. If, ~~on reading the other information,~~ the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, ~~on reading the other information,~~ the auditor becomes aware of ~~an apparent material misstatement of fact~~ that the other information needs to be revised, the auditor shall discuss the matter with management. (Ref: Para. A19)

\*\*\*

A19. ISA 720 (Revised)<sup>8</sup> contains requirements and guidance ~~relating regarding the auditor's responsibilities relating to reading other information in a financial statement audit engagement included in a document containing the audited financial statements and related auditor's report, and responding to material inconsistencies and material misstatements of fact.~~ Adapted as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

\*\*\*

### Glossary of Terms

~~\*Annual report—A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon. A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or by custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. The content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions.~~

Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other types of information. (See Sufficiency of audit evidence and Appropriateness of audit evidence.)

~~\*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.~~

\*Misstatement of the other information—A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (for example, because it omits or obscures

<sup>8</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

information necessary for a proper understanding of a matter). Misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users.

*\*Other information*—Financial and non-financial information (other than ~~the~~ financial statements and the auditor's report thereon) ~~which is included in an entity's annual report, either by law, regulation, or custom, in a document containing audited financial statements and the auditor's report thereon.~~



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