

The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon—

Draft International Standard on Auditing 720 (Revised)

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

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International Standard on Auditing (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*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information (other than the audited financial statements and the auditor's report, and referred to as "other information" for the purpose of this ISA) in documents containing or accompanying audited financial statements and the auditor's report thereon that are within the scope of this ISA.
2. Terms used to describe documents that include such other information may vary. However, only a document that displays all of the following key features is within the scope of this ISA: (Ref: Para. A1–A4)
 - (a) *Nature and purpose.* Contains or accompanies the audited financial statements and the auditor's report thereon for purposes of providing further commentary aimed at enhancing the user's understanding of:
 - (i) The audited financial statements; or
 - (ii) The entity, and its state of affairs;
 - (b) *Timing of availability.* Intended to be made available along with the initial release, typically annually, of the audited financial statements and the auditor's report thereon; and
 - (c) *Intended users.* Same as the intended users of the audited financial statements.
3. The ISAs do not impose an obligation on the auditor to obtain assurance as to the accuracy, reliability or completeness of the other information in order to express a conclusion thereon. However, this ISA requires the auditor to read and consider the other information in light of the auditor's understanding of the entity and its environment, and information acquired during the course of the audit because, by doing so, the auditor may identify matters that:
 - (a) Are relevant to the audit;
 - (b) Have an effect on the credibility of the audited financial statements and therefore the auditor's report thereon; or
 - (c) Have an effect on the credibility of the other information itself.
4. Law or regulation may require the auditor to specifically report on such other information. In these circumstances, the auditor determines and performs the procedures necessary to meet those additional requirements. Although this ISA does not apply in such circumstances, some of the procedures included in this ISA may be relevant.

5. This ISA may also be applied, adapted as necessary in the circumstances, to information in other documents containing or accompanying audited financial statements, such as those used in securities offerings or other prospectuses.¹

Effective Date

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

Objectives

7. The objectives of the auditor are to:
 - (a) Read and consider the other information in documents containing or accompanying audited financial statements and the auditor's report thereon; and
 - (b) Evaluate and respond appropriately to matters identified that may materially affect those audited financial statements, and therefore the auditor's report thereon, or the other information itself.

Definitions

8. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Other information – Information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation, custom or voluntarily, in a document containing or accompanying audited financial statements and the auditor's report thereon (in the context of ISA 720). (Ref: Para. A5–A9)
 - (b) Misrepresentation of other information – Either:
 - (i) A statement of fact in the other information that the auditor considers to be incorrect;
 - (ii) A statement involving management judgment in the other information that the auditor considers to be unreasonable or inappropriate; or
 - (iii) An omission or manner of presentation that the auditor considers may be misleading about a matter(s) in the other information,

in light of the auditor's understanding of the entity and its environment, or information acquired during the course of the audit.

Misrepresentations of other information are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the other information and the audited financial statements. (Ref: Para. A10–A11)

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 2

Requirements

Reading and Considering Other Information

9. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall make appropriate arrangements with management or those charged with governance to obtain such other information before it is issued and in any case as soon as practicable. (Ref: Para. A12–A13)
10. The auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment, and information acquired during the course of the audit. (Ref: Para. A14–A18)
11. If financial data in the other information is extracted from or capable of being reconciled to the audited financial statements, the auditor shall perform procedures sufficient to determine whether it is necessary to revise the financial data in the other information or the corresponding items in the audited financial statements. (Ref: Para. A19)

Matters Relating to the Audited Financial Statements

12. If the auditor identifies a matter(s) that leads the auditor to believe that the audited financial statements may be materially misstated, the auditor shall, through carrying out such procedures as required by the ISAs, seek to determine whether the matter(s) causes the audited financial statements as a whole to be materially misstated.
13. If the auditor determines that the matter(s) causes the audited financial statements as a whole to be materially misstated and management refuses to revise the audited financial statements, the auditor shall carry out such procedures as required by the ISAs including either:
 - (a) Modifying the opinion in the auditor's report in accordance with ISA 705² where the other information is obtained prior to the date of the auditor's report; or
 - (b) Taking the appropriate actions in accordance with ISA 560³ where the other information is obtained subsequent to the date of the auditor's report.

Matters Relating to the Other Information

14. If the auditor identifies a matter(s) that leads the auditor to believe that the other information may be materially misrepresented, the auditor shall discuss the matter(s) with management. (Ref: Para. A20–22)
15. The auditor shall, if necessary by performing other procedures, determine whether individually or collectively the matter(s): (Ref: Para. A21–A22)

² ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

³ ISA 560, *Subsequent Events*, paragraphs 10–17

- (a) Is not likely to cause the other information to be materially misrepresented including, where there are valid differences of judgment or opinion; or
- (b) Cause the other information to be materially misrepresented.

Other Information Obtained prior to the Date of the Auditor's Report

16. If the auditor has determined that the matter(s) causes the other information, which was obtained prior to the date of the auditor's report, to be materially misrepresented:
 - (a) If management agrees to correct the other information, the auditor shall determine that the correction has been made; or
 - (b) If management refuses to correct the other information, the auditor shall:
 - (i) Not date the auditor's report pending resolution of the matter; and
 - (ii) Communicate this matter to those charged with governance and request that such matter(s) be corrected.
17. If management and those charged with governance refuse to correct the other information at the request of the auditor, the auditor shall:
 - (a) Reevaluate the integrity of management and those charged with governance, and evaluate the effect that this may have on the reliability of the other information and audit evidence in general; and
 - (b) Take the appropriate actions including whether to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A23–A25)
18. If the auditor determines to continue with the engagement, the auditor shall include in the auditor's report an Other Matter(s) paragraph describing the material misrepresentation in accordance with ISA 706.⁴

Other Information Obtained after the Date of the Auditor's Report

19. If the auditor has determined that the matter(s) causes the other information, which was obtained after the date of the auditor's report, to be materially misrepresented:
 - (a) If management agrees to make the correction, the auditor shall:
 - (i) Determine that the correction has been made; and
 - (ii) If the other information has already been issued, review how management has informed recipients of the correction; or
 - (b) If management refuses to correct the other information, the auditor shall communicate these matters to those charged with governance, and request that such matters be corrected.

⁴ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

20. If management and those charged with governance refuse to correct the other information at the request of the auditor, the auditor shall consider whether further appropriate action may be necessary in the circumstances of the engagement. (Ref: Para. A26–A27)

Documentation

21. The auditor shall agree with management the version of the document(s) on which the auditor's work effort under this ISA was performed and include a copy of this version in the audit documentation. (Ref: Para. A28–A29)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 2)

- A1. The documents containing audited financial statements, the auditor's report and other information as stated in paragraph 2 of this ISA are typically referred to as an annual report, although such documents may also be known by a different term.
- A2. Such other information may be presented as a document that is separate from, but intended to be provided to the intended users at the same time as the audited financial statements and the auditor's report thereon, and in order to complement and supplement them (for the purpose of this ISA referred to as "accompanying the audited financial statements and auditor's report"). Such documents may be referred to as, for example, management's discussion and analysis, directors' report, management report, corporate governance statement, and operating and financial review. In some cases, circumstances may result in a time lag between the issuance of the audited financial statements and the auditor's report thereon, and the accompanying document containing other information. Notwithstanding the time lag, the document remains within the scope of this ISA because it is intended to accompany the audited financial statements and the auditor's report thereon.
- A3. A document that meets the criteria in paragraph 2 of this ISA is within the scope of this ISA, irrespective of the manner in which it is made available to the intended users. Such a document may be made available to the intended users in the form of printed hardcopy, or electronically including by posting on the entity's website.
- A4. In addition to the documents referred to in paragraph 2 of this ISA, entities may prepare other documents that contain or accompany the audited financial statements or parts thereof, or the auditor's report, but which do not display all the key features stated in paragraph 2 of this ISA. Such documents are not within the scope of this ISA. Examples of such documents include:
- Preliminary earnings releases.
 - Offer documents for raising capital or other funds, for example, prospectuses.
 - A press release or equivalent.

- Information contained in analyst briefings.

Definitions

Other Information (Ref: Para. 8(a))

- A5. In some cases, the applicable financial reporting framework may permit disclosures required under the framework to be located outside of the audited financial statements.⁵ Such information is covered by the audit, and does not constitute, other information for the purpose of this ISA.
- A6. ISA 700⁶ indicates that, in some circumstances, unaudited supplementary information that is not required by the applicable financial reporting framework may be presented with, but should be clearly differentiated from, the audited financial statements. Such unaudited supplementary information falls within the definition of other information and is therefore within the scope of this ISA.
- A7. Other information may be financial or non-financial in nature, historical or prospective, and may include, for example, the following:

Financial

- Financial summaries or highlights
- Planned expenditures
- Segment information⁷
- Financial ratios
- Selected quarterly financial data
- Financial key performance indicators

Non-Financial

- Management commentary on the entity and its state of affairs
- Names and profiles of officers and directors
- Employment data
- Descriptions of business model, strategy, risks, and outlook

⁵ For example, International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures* as at [date], paragraph B6, permits certain disclosures required by the IFRS to be 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.

⁶ ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 46–47 and A45–A51

⁷ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*, deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to segment information in an audit of financial statements when, under the applicable financial reporting framework, the entity is required or permitted to disclose such information in the audited financial statements.

- Governance statements
- Sustainability and corporate social responsibility information
- Statements of internal control
- Non-financial key performance indicators

A8. The International Financial Reporting Standard (IFRS) Practice Statement on management commentary⁸ explains that management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity's financial position, financial performance and cash flows. It also provides commentary on an entity's prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives. Management commentary therefore constitutes other information for the purpose of this ISA.

Considerations Specific to Public Sector Entities

A9. In the public sector, examples of other information may include quality of services, volume of work, efficiency targets and other performance metrics.

Misrepresentation of Other Information (Ref: Para. 8(b))

A10. For the purpose of this ISA, the term misrepresentation is used in the context of other information and is not intended to suggest linkages, if any, to the use of such a term in law, regulation or other professional standards.

A11. The manner of presentation of the other information may mislead intended users, for example, when it obscures important aspects of a matter(s) in the other information such that users may misunderstand the matter(s).

Reading and Considering Other Information

Availability of Other Information (Ref: Para. 9)

A12. This ISA applies regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. Obtaining the other information prior to the date of the auditor's report is important as it enables revisions, if any, to be made to the audited financial statements or the auditor's report, and corrections, if any, to be made to the other information prior to their issuance. An agreement with management as to when the other information will be available is desirable. The audit engagement letter may make reference to the agreement of management to make available to the auditor the other information in time to allow the auditor to complete the procedures required under this ISA.

⁸ IFRS Practice Statement, Management Commentary as at December 2010.

A13. The auditor is not precluded from dating the auditor's report if the auditor has not obtained the other information. Paragraphs 12–15 and 19–20 of this ISA describe the auditor's procedures when the other information is obtained after the date of the auditor's report.

Reading and Considering the Other Information in Light of the Auditor's Understanding (Ref: Para. 10)

A14. The auditor's understanding of the entity and its environment, and information acquired during the course of the audit, forms the basis for the auditor's consideration of the other information as required in this ISA. ISA 315⁹ sets out the matters relating to the entity and its environment, including the entity's internal control, for which the auditor is required to obtain an understanding for the purpose of the audit. Such matters include the following:

- (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.

A15. The auditor is required by ISA 200¹⁰ to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information include, for example, recognizing that circumstances may exist that may raise doubt about the audited financial statements and other information, and possibly the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these.

Responsibility for Reading and Considering Other Information (Ref: Para. 10)

A16. In accordance with ISA 220,¹¹ 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. The engagement partner identifies the individuals on the engagement team, including the engagement partner, to be assigned tasks relating to reading and considering the other information. Factors to consider may include whether the individuals have the relevant knowledge to credibly consider the other information in light of the auditor's understanding of the entity and its environment, or information acquired during the course of the audit.

⁹ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs A17–A104

¹⁰ ISA 200, paragraph 15

¹¹ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- A17. Typically, more experienced members of the engagement team would be assigned responsibility for other information that involves a greater amount of professional judgment. Similarly, less complex procedures involving a lower degree of judgment such as cross-checking of figures to the audited financial statements may be carried out by less experienced members of the engagement team.
- A18. In the case of a group audit, there may be circumstances where the group engagement partner determines a need to engage the assistance of the component auditor.

The Auditor's Procedures Relating to Other Information Extracted from or Capable of Being Reconciled to Audited Financial Statements (Ref: Para. 11)

- A19. The auditor's procedures relating to financial data in the other information that is extracted from or capable of being reconciled to the audited financial statements may include agreeing the extraction, or testing management's reconciliation of the items to the audited financial statements for material items.

Matters Relating to the Other Information (Ref: Para. 14–15)

- A20. When reading and considering the other information, the auditor is not expected to substitute the auditor's professional judgment for that of management and those charged with governance when dealing with matters requiring judgment that are the responsibilities of these parties. While it may be more difficult for the auditor to challenge management on a matter of judgment relating to such other information, there may be circumstances where the auditor may determine management assertions exist in the other information that are inconsistent with the auditor's understanding of the entity and its environment, and information acquired during the course of the audit. Such a matter(s) may raise doubt about the audited financial statements and other information.
- A21. If the auditor identifies a matter(s) that leads the auditor to believe that the other information may be materially misrepresented, paragraph 14 of this ISA requires the auditor to discuss the matter(s) with management. During the discussion, the auditor may consider that, due to the nature of such other information, the auditor may not be able to assess management's responses to the auditor's inquiries and accordingly the validity of management's assertion. In such circumstances, the auditor would therefore not be able to determine whether the other information is materially misrepresented. In these cases, other procedures the auditor may consider taking include requesting management to consult with a qualified third party such as legal counsel or other experts.
- A22. Alternatively, following discussion with management, the auditor may obtain further information or explanations relating to the matter(s) raised that reinforces the auditor's belief that the other information may be materially misrepresented. In such cases, paragraph 15 of this ISA requires the auditor to determine whether to perform other procedures. The auditor's judgment about whether and if so, the nature of and to what extent other procedures are necessary is guided by information obtained from the auditor's evaluation of the results of the audit procedures already performed, and the auditor's understanding of the entity and its environment, and information acquired during the course of the audit.

Other Information Obtained Prior to the Date of the Auditor's Report (Ref: Para. 17)

- A23. The auditor may base any decision on what further action to take on advice from the auditor's legal counsel. Law, regulation or other professional standards may require that the matter be communicated by the auditor to the regulator or relevant professional body.
- A24. The auditor may withdraw from the engagement, where withdrawal is appropriate and possible under applicable law or regulation, for example, if the auditor determines that management lacks integrity. The ISAs addresses relevant circumstances in which the auditor may determine that the auditor is unable to continue with the engagement.¹² In these circumstances, the auditor follows the relevant requirements in ISA 705.¹³

Considerations Specific to Public Sector Entities

- A25. In the public sector, withdrawal from the engagement or withholding the auditor's report may not be options. In such cases, the auditor may issue a report to the legislature giving details of the misrepresentation.

Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19–20)

- A26. The auditor makes appropriate arrangements with management or those charged with governance to obtain the other information before it is issued as required by paragraph 9 of this ISA. Accordingly in most circumstances, the auditor would have read and considered, and any required correction would have been made, to the other information before its issuance.
- A27. In some cases, the auditor may believe that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on financial statements previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance. In such cases, the auditor's course of action depends upon the auditor's legal rights and obligations. The auditor may consider it appropriate to seek legal advice.

Documentation (Ref: Para. 21)

- A28. In accordance with paragraph 21 of this ISA, the auditor makes the necessary arrangements with management regarding the version of the document that the auditor will be reading and considering for the purpose of complying with this ISA. Such arrangements may include, for example, obtaining the version of the document that has been approved by the board of directors. The auditor may also consider whether to obtain a written representation from management regarding this matter.

¹² See ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, ISA 260, *Communication with Those Charged with Governance*, and ISA 580, *Written Representations*.

¹³ ISA 705, paragraph 14

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A29. A copy of the document agreed with management is included in the audit documentation so that, in cases where the document is subsequently amended by the entity, such documentation serves as a record of the version on which the auditor's work effort has been performed.