

**The Auditor's Responsibilities Relating to Other Information in Documents
Containing or Accompanying Audited Financial Statements and the Auditor's
Report Thereon—
Issues and IAASB Task Force Proposals**

Background

1. At its September 2010 meeting, the IAASB discussed the following significant issues to be addressed in the revision of ISA 720 and provided direction to the Task Force for taking the project forward:
 - *Documents in the scope of ISA 720.* The IAASB supported the Task Force's proposal that ISA 720 include within its scope annual reports (consistent with the extant ISA 720) but recommended that it should also deal with the circumstance in a number of jurisdictions where management commentary, prepared to accompany the audited financial statements and the auditor's report thereon, is issued separately. In setting out the scope of the ISA, the IAASB supported the recommended approach of describing key features of those documents that would be covered by the scope of ISA 720.
 - *The auditor's work effort relating to other information.* The IAASB agreed with the Task Force's proposal to describe the auditor's work effort as one of "reading and considering" the other information and to premise this work effort on the auditor's understanding of the entity and its environment, and information acquired during the course of the audit. The IAASB encouraged the Task Force, in further developing the proposals, to be explicit about the procedures that the auditor might undertake depending on the nature of the other information and actions that the auditor should take when issues are identified.
 - *Preliminary announcements.* The IAASB expressed reservations about the Task Force's proposal to address the auditor's responsibilities relating to preliminary announcements in ISA 720 due to inherent differences between annual reports¹ and preliminary announcements, including their content, timing of issuance and extent of application (listed and non-listed entities). Because of these differences, it was noted that inclusion of these documents in the scope of ISA 720 would risk blurring the ISA's focus on documents that have a clear relation to *audited* financial statements. Accordingly, the IAASB asked the Task Force to further consider whether and, if so, how the auditor's responsibilities, if any, relating to preliminary announcements might be undertaken separately from the revision of the ISA.
 - *Dissemination of documents by the entity.* The IAASB agreed that it is not appropriate for the matter of electronic distribution to be addressed in ISA 720. Because the topic has linkages to all documents disseminated by the entity, the IAASB considered that it may be appropriate to address this matter under the wider topic of (auditor) association.

¹ Paragraph 2 of extant ISA 720 states that "documents containing audited financial statements" refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor's report thereon."

Significant Issues

Structure of this Paper

2. This paper sets out the Task Force's recommendations and is structured as follows:
 - (a) **Section A: Documents in the scope of ISA 720.** Discusses the documents that are in, and those that are outside of, the scope of proposed revised ISA 720, and how to describe those documents that are in the scope of the ISA.
 - (b) **Section B: Strengthening the auditor's approach to other information.** Discusses the auditor's responsibilities and actions to be taken depending on the nature of the other information and whether the matter relates to the audited financial statements or the other information.
 - (c) **Section C: Other considerations.** Discusses other matters relevant to the revision of ISA 720 including linkages to other ISAs, audit documentation and auditor's reporting.
 - (d) **Section D: Preliminary announcements and auditor association.** Discusses the matter of preliminary announcements and auditor association.

Significant Issues

A. Documents in the Scope of ISA 720

3. Extant ISA 720 deals with annual reports (or similar documents), which the ISA refers to as documents containing audited financial statements and the auditor's report thereon that are issued to owners (or similar stakeholders). During the Task Force's previous two discussions with the Board, the IAASB maintained its support for retaining the ISA's scope on these documents on the premise that the intent of ISA 720 is to focus on documents that have *direct* linkages to the audited financial statements and therefore the auditor's report. Notwithstanding this, the IAASB recognized that, in a number of cases, other information may be located *separately* from the audited financial statements and the auditor's report in an *accompanying* document (whereas in annual reports other information is presented *together* with the audited financial statements and the auditor's report thereon). The IAASB agrees that, because the other information in such documents is in essence identical in nature to those in annual reports, the auditor's responsibilities under ISA 720 should extend to these.
4. To address this, the IAASB further agreed that there is merit in developing a description of key features of the documents that would be covered by ISA 720. Unlike defined terms, a broad-based description has the advantage of accommodating national differences in terminology. The clarity of such a description would, however, be critical.

5. The Task Force has identified the following key distinguishing features of annual reports and documents that are intended to accompany audited financial statements and the auditor's report:
- *Nature.* These documents are linked directly to the audited financial statements and the auditor's report—they either contain or accompany the audited financial statements and the auditor's report. As such, these documents command specific attention from the auditor.
 - *Purpose.* These documents provide further commentary by management that is aimed at enhancing the user's understanding of the audited financial statements or the entity, and its state of affairs. Such commentary provides explanations of the amounts presented in the financial statements, the entity's prospects and further information on the audited financial statements. Such other information may be financial or non-financial in nature, historical or prospective.
 - *Timing.* These documents are ordinarily issued on an annual basis and intended to be made available along with the initial release of the audited financial statements and the auditor's report.
 - *Users.* The intended users of these documents are the same as the intended users of the audited financial statements.

Based on these, the Task Force proposes a description of key features in proposed revised ISA 720. **[See paragraph 2 of Agenda Item 7-C.]**

6. The Task Force is cognizant that, besides those that are in the scope of ISA 720, there are a myriad of documents that may contain audited financial statements or parts thereof. It is possible that these documents may be perceived to be in the scope of ISA 720. A few stakeholders have raised this matter with the Task Force and recommended that the ISA be clarified accordingly.
7. While the Task Force believes that the proposed description is sufficient for auditors to determine whether documents are in, or outside of, the scope of ISA 720, for the avoidance of doubt, the Task Force recommends that the ISA explicitly identifies certain documents that are outside of the scope of ISA 720 but to some stakeholders, there might be ambiguity. Following are some examples:
- Preliminary earnings releases
 - Offer documents for raising capital or other funds, for example, prospectuses
 - A press release or equivalent
 - Information contained in analyst briefings

[See paragraph A4 of Agenda Item 7-C.]

Field Testing

8. The Task Force believes there is merit in field testing the application of the proposed description prior to finalization of an exposure draft of proposed revised ISA 720. If the

IAASB supports this course of action, the Task Force proposes that an informal survey of a sample of national standard setters (NSS), firms and regulators/audit inspection agencies be undertaken to ascertain whether there is consistent reading of the standard in the context of the documents in each country.

Matters for IAASB's Consideration

1. The IAASB is asked whether it agrees with proposed description of key features of documents in the scope of ISA 720.
 - If so, does the IAASB agree with the Task Force's proposal to field test this description with NSS, firms and regulators/ audit inspection agencies?

B. Strengthening the Auditor's Approach to Other Information

Reading and Considering in Light of the Auditor's Knowledge

9. In September 2010, the IAASB expressed support for the Task Force's proposal to describe the auditor's work effort as one of "reading and considering" the other information through application of a systematic thought process. The IAASB also agreed that the auditor's work effort is based on the auditor's understanding of the entity and its environment (as set out in ISA 315),² and information acquired during the course of the audit. Proposals regarding the actions that need to be taken by the auditor when issues arise, consequent of the auditor's procedures under ISA 720, are premised on this principle.

Other Information Extracted from or Capable of Being Reconciled to the Audited Financial Statements

10. The IAASB encouraged the Task Force, in further developing the proposals, to be explicit about the procedures that the auditor might undertake depending on the nature of the other information. The Task Force believes that, in maintaining the credibility of audited financial statements, other information in the document that is extracted from or capable of being reconciled to the audited financial statements should correspond to the relevant items in the audited financial statements. A Representative of the Consultative Advisory Group (CAG) also raised similar considerations.
11. Accordingly the Task Force proposes that, under these circumstances, there should be a specific requirement for the auditor to perform procedures for the purpose of reconciling such other information to the audited financial statements. The auditor's procedures may include agreeing the extraction, or testing management's reconciliation of the items to the audited financial statements for material items. **[See paragraphs 11 and A19 of Agenda Item 7-C.]**

² ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs A17–A104

Matter for IAASB's Consideration

2. The IAASB is asked whether it agrees that the auditor should be required to determine whether financial data in the other information that is extracted from or capable of being reconciled to the audited financial statements corresponds to those items in the audited financial statements.

Misrepresentations of Other Information

12. Extant ISA 720 deals with the auditor's responsibilities when the auditor identifies material inconsistencies with the audited financial statements. The extant ISA also addresses apparent material misstatements of fact in the other information that the auditor may become aware of when reading such information for the purpose of identifying material inconsistencies. The extant ISA defines "material misstatement of fact" as "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 the audited financial statements." Although these concepts generally remain sound, some stakeholders, including a few CAG Representatives, recommended that the auditor's role relating to other information be clarified, in particular with respect to other information which the auditor feels is critical but has been omitted from the document.
13. The Task Force agrees with these views. To respond to the above, the Task Force recommends that the concept of "apparent material misstatement of fact" be expanded to other information that may be "materially misrepresented" where a "misrepresentation of other information" may arise in one of the following ways:³
 - (a) A statement of fact in the other information that the auditor considers to be incorrect;
 - (b) A statement involving management judgment in the other information that the auditor considers to be unreasonable or inappropriate; or
 - (c) An omission or manner of presentation that the auditor considers may be misleading about a matter(s) in the other information.
14. The Task Force also believes that it is important to emphasize that the auditor's consideration of these matters are undertaken in light of the auditor's understanding of the entity and its environment (as set out in ISA 315),⁴ and information acquired during the course of the audit.
15. The Task Force further recommends that "materially" misrepresented be explained in the context of misrepresentation of other information that, individually or in the aggregate, could reasonably be expected, in the view of the auditor, to influence the economic decisions of users taken on the basis of the other information and the audited financial statements.

³ The Task Force considered other terms such as "misstated," "misleading," and "inconsistent," but felt that these terms are inappropriate as they have either been accorded a specific meaning in extant ISA 720 or in other ISAs.

⁴ ISA 315, paragraphs A17–A104

16. Based on the above, the Task Force proposes a definition of “misrepresentation of other information” in proposed revised ISA 720. **[See paragraphs 8(b) and A10–A11 of Agenda Item 7-C.]**

Matter for IAASB's Consideration

3. The IAASB is asked whether it agrees with expansion of the auditor's responsibility to respond to other information that the auditor believes to be materially misrepresented.
- If so, whether it agrees with the proposed definition of “misrepresentation of other information.”

The Auditor's Actions Regarding Matters Relating to the Audited Financial Statements and the Other Information

17. Although extant ISA 720 covers the auditor's responsibilities relating to other information, the ISA mainly deals with the auditor's work effort for identifying matters that are inconsistent with the audited financial statements. Extant ISA 720 also addresses those matters that only have implications for the other information but the boundary is currently drawn where such matters relate to statements of fact.
18. The IAASB encouraged the Task Force, in further developing its proposals, to be explicit about the actions that the auditor should take when issues arise from the auditor's consideration of the other information. Some stakeholders, including a few CAG Representatives, also emphasized this point.
19. The Task Force makes the following recommendations:
- (a) To revise the structure of the ISA to clearly articulate requirements of the auditor with regard to matters that relate to the audited financial statements and those that relate to the other information. **[See paragraphs 12–20 of Agenda Item 7-C.]**
 - (b) To clarify the auditor's responsibilities and actions that need to be taken in the circumstances where the auditor identifies a matter that leads the auditor to believe the audited financial statements may be materially misstated. ISA 450⁵ deals with the auditor's responsibilities regarding misstatements identified during the audit. The ISA indicates that circumstances that may affect the auditor's evaluation of misstatements identified during the audit include the extent to which the misstatement affects other information that will be communicated in documents containing the audited financial statements (as addressed in ISA 720).⁶ **[See paragraphs 12–13 of Agenda Item 7-C.]**
 - (c) To clarify actions that need to be taken by the auditor when issues relating to the other information arise, specifically to:

⁵ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁶ ISA 450, paragraph A16

- (i) Require the auditor to discuss with management the other information that the auditor believes may be materially misrepresented;
- (ii) Require the auditor to determine, by performing other procedures if necessary, whether individually or collectively the matter(s) identified is likely to cause the other information to be materially misrepresented; and
- (iii) Specify the course of action the auditor is required to take thereon depending on the following:
 - The timing at which the auditor obtains the other information from the entity; and
 - Whether or not management and, where applicable, those charged with governance agree to make the revision.

The Task Force is of the view that, when discussing the matter with management, 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 not be able to determine whether the other information is materially misrepresented. Possible actions the auditor may consider taking under these circumstances are proposed. **[See paragraphs 14–20 and A20–A27 of Agenda Item 7-C.]**

Responsibility for Reading and Considering Other Information

20. Depending on the circumstances, certain of the procedures required by ISA 720 may be performed by members of the engagement team *other than* the engagement partner. The Task Force believes that ISA 720 should acknowledge this.
21. Accordingly, the Task Force recommends the inclusion of guidance on the factors that the engagement partner should be considering when identifying the individuals on the engagement team to be assigned tasks relating to reading and considering other information.

Matters for the IAASB's Consideration

4. The IAASB is asked whether it agrees with the proposals in paragraph 19, in particular to:
 - Structure the ISA to focus on the auditor's actions to respond to matters relating to the audited financial statements and those relating to the other information.
 - Clarify the auditor's responsibilities and actions in the circumstances where the auditor identifies a matter that leads the auditor to believe the audited financial statements may be materially misstated.
 - Specify the actions to be taken by the auditor when auditor identifies a matter that leads the auditor to believe the other information may be materially misrepresented.

5. The IAASB is asked whether it agrees with the factors that the engagement partner should be considering when identifying the individuals on the engagement team to be assigned tasks for the purpose of ISA 720.

C. Other Considerations

Linkage to Other ISAs

Subsequent Events

22. ISA 560 states that the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.⁷ However in the circumstances where the auditor obtains the other information from the entity after the date of the auditor's report, the auditor may, in performing the procedures required under ISA 720, identify a subsequent event.
23. Extant ISA 560 does not, however, refer to such circumstances. The Task Force felt that ISA 560 needs to be clarified accordingly so as to avoid the possibility for confusion. **[See paragraphs A11a and A16a of Agenda Item 7-B.]**

Supplementary Information

24. ISA 700⁸ 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. The Task Force felt that clarifying this in ISA 720 would enhance the clarity of the ISA. **[See paragraph A6 of Agenda Item 7-C.]**
25. Separately, the Task Force is aware that some financial reporting frameworks (for example, International Financial Reporting Standards) permit information that is required by the framework to be disclosed outside of the financial statements. The Task Force believes that, for the avoidance of doubt, ISA 720 should make clear that, despite its location outside of the financial statements, such information is covered by the audit because it is required by the financial reporting framework and therefore not considered to be within the scope of ISA 720. **[See paragraph A5 of Agenda Item 7-C.]**

⁷ ISA 560, paragraphs 10 and 14

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 46–47 and A45–A51

Matters for the IAASB's Consideration

6. The IAASB is asked:
- Whether it agrees with the proposed revisions to ISA 560.
 - Whether it agrees that it should be clarified that (a) unaudited supplementary information referred to in ISA 700 falls within the definition of other information; and (b) information that is required by the applicable financial reporting framework to be disclosed outside of the financial statements does not constitute other information in ISA 720.

Documentation

26. It is typically the case that the entity produces several iterations of the document on which the auditor is required to perform procedures under ISA 720. The Task Force believes that it is important for the auditor to make the necessary arrangements with management to agree on the version that the auditor should be reading and considering for the purpose of applying ISA 720. It also felt that a copy of this version of the document should be included in the audit documentation. **[See paragraphs 21 and A28–A29 of Agenda Item 7-C.]**

Matters for the IAASB's Consideration

7. The IAASB is asked whether it agrees that the auditor should be required to agree with management the version of the document on which the auditor's work effort under proposed revised ISA 720 was performed.
- If so, does the IAASB agree that a copy of this version should be included in the audit documentation?

Auditor Reporting

27. The matter of auditor reporting arose during the Task Force's discussion, in particular the question of whether the auditor's report should include a reference to the auditor's work effort undertaken in relation to the other information. The Task Force noted that there may be merit in doing so in order to clarify and better communicate the auditor's responsibility with respect to such other information.
28. The Task Force is aware that the Auditor Reporting Working Group is currently considering this matter and will be following the Working Group's progress in this regard with interest for any implications on the current revision of ISA 720.

Matter for the IAASB's Consideration

8. The IAASB is asked to share its thoughts on any considerations that might be relevant to the Task Force's deliberation of the matter of auditor reporting in the context of ISA 720.

D. Preliminary Announcements and Auditor Association

The Auditor's Responsibilities Relating to Preliminary Announcements

29. In September 2010, the Task Force made the IAASB aware of views, including those of some of the CAG Representatives, about the importance of the IAASB dealing with preliminary announcements. In general, these views reflect the fact that this is believed to be in the public interest.⁹
30. The IAASB, however, expressed reservations about the Task Force's proposal to address the auditor's responsibilities, if any, relating to preliminary announcements in proposed revised ISA 720 due to inherent differences between annual reports and preliminary announcements. Because of these differences, the IAASB was of the view that inclusion of preliminary announcements in the scope of ISA 720 would risk blurring the ISA's focus on documents that have a clear relation to *audited* financial statements. Following are some of the key practical considerations:

- *Extent of application to entities.* Preliminary announcements are issued generally only by listed entities (that is, such documents do not apply to all entities and in all cases), whereas ISA 720 and indeed the ISAs are neutral in this regard.
- *Auditor's involvement.* In many instances, because a requirement for the auditor's involvement with preliminary announcements is absent, entities are not obligated to provide the auditor with access to such documents prior to their issuance. Assuming the need for the auditor's involvement with such documents is established, the question that arises is therefore whether the auditor's involvement should be made mandatory, for example, through law or regulation (although outside the IAASB's remit).

However, in situations where the auditor's involvement remains discretionary, the auditor may be perceived to be associated with preliminary announcements due to their linkage to the entity's financial statements and therefore the audit.

- *Timing of issuance.* In some cases, the preliminary announcement may be issued only at "an advanced stage of the audit" if not close to the completion of the audit, whereas in other cases preliminary announcements may be issued at a time when the audit is at a comparatively earlier stage. Depending upon the stage of the audit when the entity embarks on the preparation of the preliminary announcement, the work effort that can reasonably be expected of the auditor should be reflective of the extent and nature of work that has been done, and that remains to be done, for purposes of the audit.
- *Contents.* In some cases, preliminary announcements are sizable documents containing draft financial statements and comprehensive narrative on these

⁹ These stakeholders thought that, although preliminary announcements are not currently within the remit of the audit, these documents are closely related to the entities' annual reporting cycle and may be aimed at communicating the entity's annual financial results. In some cases, it may be the first public communication by the entity of its annual performance and financial position and, as such, may command investor interest and, consequently, may "move the market." These stakeholders felt the auditor's knowledge of the entity obtained through the conduct of the audit may be leveraged in the context of these documents.

statements, and the entity and its state of affairs—akin to annual reports. In other cases, preliminary announcements are brief and consist only of a few pages that contain high-level financial information and management's highlights thereon.

Considerations for the Way Forward

31. Notwithstanding the above, the IAASB noted that there are valid issues relating to preliminary announcements which should be considered; some of which could be addressed through an international auditing standard. The IAASB asked the Task Force to further consider the matter and revert with recommendations for its consideration.
32. The Task Force encourages the IAASB to consider undertaking work to address whether and, if so, to what extent the auditor has responsibilities relating to preliminary announcements. It believes that it is desirable to do so separately in an ISA in order to give due recognition to the characteristics that are unique to such documents and, accordingly, the auditor's responsibilities in view of these considerations. Following are some matters that the Task Force noted:
 - Most members of the Task Force felt that it is impractical to require the auditor's involvement with preliminary announcements in the ISAs where preconditions for the auditor's involvement are not already present. Because preliminary announcements do not directly form the basis of the auditor's opinion, management may in some cases wish to exercise greater discretion regarding the auditor's involvement. Accordingly, the majority of the Task Force believes that such an ISA would apply only if preconditions for the auditor's involvement are present, either: (i) specified in law or regulation (for example, stock exchange listing rules); or (ii) the entity requests the auditor's involvement.
 - The Task Force considered that it may be the case that the auditor's work effort relating to preliminary announcements vis-à-vis documents in the scope of ISA 720 may to some extent be similar. In the event this is the case, cross referencing the auditor's work effort in ISA 720 can be made in order to avoid duplication.
33. The Appendix to this paper provides an outline of other matters that could be addressed in an ISA dealing with the auditor's responsibilities relating to preliminary announcements and brief descriptions of the relevant considerations.

Matters for IAASB Consideration

9. The IAASB is asked whether it agrees that the scope of revised ISA 720 should not address preliminary announcements.
10. Without prejudging the IAASB's discussion of the above, the Task Force believes that it is worth considering for the future a separate project to address the questions of whether and, if so, to what extent, the auditor has responsibilities for preliminary announcements. The Task Force asks the IAASB at this time to share its thoughts on any considerations that might be relevant.¹⁰

Auditor's Association with Documents Issued by the Entity

34. At its September 2010 meeting, the IAASB noted that the matter of auditor association with documents/information issued or disseminated by the entity has arisen on a number of occasions. The IAASB instructed the Task Force to present relevant considerations regarding this topic for its consideration during the Task Force's next discussion with the Board.
35. The Task Force has researched relevant material at the national level.¹¹ In its consideration of the topic, the Task Force noted the following:
 - In addition to audits, the matter of association extends similarly to other engagements. A pronouncement in this regard would therefore need to have wide application (that is, beyond audit engagements). The Task Force envisages that, in terms of placement in the overall structure of IAASB pronouncements, it could be placed at a level similar to that accorded to International Standard on Quality Control (ISQC) 1 (that is, it would apply for all services falling under the IAASB's Engagement Standards).¹²
 - The topic of association has direct linkage with the IESBA Code.¹³ Under the IESBA Code, the professional accountant has a professional obligation to not knowingly be associated with misleading information.¹⁴ The Task Force noted that involvement of the IESBA, in the manner of consultation, or more desirably cooperation, is essential.
 - Association can arise in a number of ways including: (i) through the actions of the practitioner; (ii) through representations made by the entity regarding the

¹⁰ This discussion is intended to help inform, not prejudice, the IAASB's consideration of further project proposals, a matter to be considered in the context of responses to the Consultation Paper, *Proposed IAASB Strategy and Work Program for 2012–2014*.

¹¹ For example, the Canadian Institute of Chartered Accountants (CICA) General Assurance and Auditing Standards Section 5020, *Association*.

¹² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

¹³ International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code)

¹⁴ Section 110.2 of the IESBA Code

practitioner's involvement (without the auditor's knowledge or agreement); and (iii) by a third party assuming the practitioner's involvement.

- Accordingly, matters that could be addressed in the pronouncement may include:
 - The need for practitioners to clearly describe their association with information to avoid any potential misunderstanding by issuing a report when they perform procedures with respect to such information.
 - The actions to be taken by the practitioner in the event it is discovered that the practitioner's name has been inappropriately used in connection with the information.
 - The procedures to perform, when a practitioner is requested by an entity to consent to the use of the practitioner's name in connection with information.

36. The Task Force encourages the IAASB to consider undertaking work to address the wider topic of association.

Matter for IAASB Consideration

11. The Task Force asks the IAASB at this time to share its thoughts on any considerations that might be relevant.¹⁵

¹⁵ See footnote 10.

Appendix

Possible ISA on the Auditor's Responsibilities Relating to Preliminary Announcements—Preliminary Matters for Consideration

In addition to the matters described in the paper, the Task Force noted other matters that could be addressed in an ISA dealing with the auditor's responsibilities relating to preliminary announcements:

- (a) *Terms of Engagement.* Whether the auditor's involvement regarding the preliminary announcement should be set out in the terms of engagement of the audit where the auditor's procedures are clearly described so as to avoid misunderstandings with management. This is particularly important as preliminary announcements are formulated based on financial statements on which the auditor's work on the audit has yet to be completed as opposed to audited financial statements.
- (b) *Objective of the Auditor.* The auditor's considerations will be premised on the auditor's knowledge of the entity and its environment obtained through the conduct of the audit. Importantly, the auditor's work effort should reflect the extent to which the audit has been progressed. Unless prescribed in law or regulation, the timing of issuance of preliminary announcements is expected to vary. Further, it may be necessary to consider whether it is practical for the auditor to perform procedures on preliminary announcements if the audit is at a "less-than-advanced" stage.
- (c) *Procedures of the Auditor.* The auditor's work effort relating to information in the preliminary announcement that: (i) is extracted from or capable of being reconciled to the audited financial statements, (ii) relates to the financial statements; and (iii) relates to the other information.
- (d) *Auditor Reporting.* There are expectations from users that information communicated in preliminary announcements will be consistent with the audited financial statements that are ultimately published by the entity. To some extent, similar expectations may also extend to the commentary provided by management. Consideration will need to be given how best to communicate the auditor's role so as to reduce users' expectation gap.