

Basis for Conclusions
Prepared by the Staff of the IAASB®
April 2015

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

The Auditor's Responsibilities Relating to Other Information

and

Related Conforming Amendments



International Auditing
and Assurance
Standards Board®

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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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ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, which was approved by the IAASB in December 2014, together with conforming amendments to ISA 210,¹ ISA 230,² ISA 260 (Revised),³ ISA 450,⁴ ISA 500,⁵ ISA 510,⁶ ISA 560,⁷ ISA 570 (Revised),⁸ ISA 580,⁹ ISA 600,¹⁰ ISA 700 (Revised),¹¹ ISA 701,¹² ISA 705,¹³ ISA 706,¹⁴ ISA 710,¹⁵ and ISA 810.¹⁶

ISA 720 (Revised) was approved with the affirmative votes of 14 out of 16 IAASB members present for the vote at the December 2014 meeting.¹⁷ The conforming amendments were approved with the affirmative votes of 15 out of 16 IAASB members present for the vote at the December 2014 meeting.

Background

1. Over recent years there have been significant developments in corporate reporting, particularly in relation to the detail included in 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 in the auditor's report regarding the auditor's involvement with such other information, has notably increased since extant ISA 720¹⁸ was issued. In light of these developments, the IAASB sought to revise ISA 720 to update and revise the standard to ensure that it is sufficient and fit-for-purpose in the context of today's financial reporting environment.

¹ ISA 210, Agreeing the Terms of Audit Engagements

² ISA 230, Audit Documentation

³ ISA 260 (Revised), Communication with Those Charged with Governance

⁴ ISA 450, Evaluation of Misstatements Identified during the Audit

⁵ ISA 500, Audit Evidence

⁶ ISA 510, Initial Audit Engagements—Opening Balances

⁷ ISA 560, Subsequent Events

⁸ ISA 570 (Revised), Going Concern

⁹ ISA 580, Written Representations

¹⁰ ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

¹¹ ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

¹² ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report

¹³ ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

¹⁴ ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

¹⁵ ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements

¹⁶ ISA 810, Engagements to Report on Summary Financial Statements

¹⁷ For a full record of the voting on ISA 720 (Revised) and the conforming amendments, including the rationale of those who voted against the standard, see the minutes of the December 1–5, 2014 IAASB meeting at www.ifac.org/auditing-assurance/meetings/new-york-usa-8 under the heading "Minutes." Two IAASB members were not present for the vote at the December 2014 meeting and were therefore ineligible to vote.

¹⁸ ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

2. In November 2012, the IAASB exposed for public comment proposed ISA 720 (Revised) (ED-720 (2012)).¹⁹ 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. 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.
3. However, among other matters, 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.
4. In responding to the feedback on exposure, the Board recognized that the proposed revised ISA resulted in a substantively improved, but different, approach to fulfilling the aims of the revision of ISA 720, on which respondents to ED-720 (2012) had not had the opportunity to comment. Accordingly, the IAASB concluded that re-exposure of the proposed ISA was necessary.
5. In March 2014, the IAASB approved proposed revised ISA 720 (ED-720 (2014))²⁰ for re-exposure. The comment period for ED-720 (2014) closed on July 18, 2014. Comment letters were received from 73 respondents, including regulators and audit oversight authorities, national auditing standard setters (NSS), accounting firms, public sector organizations, preparers, those charged with governance (TCWG), IFAC Member Bodies and other professional organizations, and individuals. Included in the responses were responses from four Monitoring Group (MG) members.²¹
6. This Basis for Conclusions explains the more significant issues raised by respondents to ED-720 (2014), and how the IAASB has addressed them.
7. The IAASB has also discussed this project with the IAASB Consultative Advisory Group (IAASB CAG) on 10 occasions, including prior to the issuance of ED-720 (2012) and ED-720 (2014) and prior to the finalization of the ISA.

The Scope of Other Information

Background and Summary of Comments Received on Re-Exposure

8. ED-720 (2014) defined 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 different corporate reporting regimes and practices in a wide variety of jurisdictions and circumstances and therefore included both a definition of an annual report and application material

¹⁹ 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

²⁰ Proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information

²¹ The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank (WB). BCBS, IAIS, IFIAR and IOSCO responded to ED-720 (2014).

to assist in applying the definition to many common types of documents that auditors are likely to encounter.

9. The Explanatory Memorandum of ED-ISA 720 (2014) also highlighted the IAASB's decision that preliminary announcements of financial information and securities offering documents (including prospectuses) are excluded from the scope of ISA 720 (Revised). This decision took into account feedback from respondents to ED-ISA 720 (2012) that national law or regulation typically address the auditor's responsibilities in relation to preliminary announcements and securities offering documents, and that there is potential for significant conflict with such law or regulation.
10. Unlike the proposed scope of other information in ED-720 (2012), the scope of ED-720 (2014) met with broader support, with several respondents noting that the proposed scope of the ISA, including the definitions of other information and annual report, was appropriately flexible to account for national variations. However, a few respondents believed that the definitions of other information and annual report were insufficiently clear or were open to differing interpretations in the context of their national environments. In addition to more minor comments, respondents from many different stakeholder groups made suggestions for, or comments about, specific inclusions or exclusions from the scope of the ISA. For example, a regulatory respondent did not support the inclusion of integrated reports in the scope of the ISA.
11. MG members generally supported the linkage to annual reports in the revised scope of the ISA and noted, for example, that this approach was more sensible and understandable than that in ED-720 (2012) and would provide a common basis for the auditor's work. However, like other respondents, some MG members sought further clarification about whether certain documents would be within the scope of the ISA, including documents that the auditor is specifically required to address under national law or regulation in conjunction with the audit of financial statements, interim financial statements subject to audit (rather than, for example, a review engagement), and capital adequacy reports of prudentially regulated entities. A MG member also explicitly supported the notion that the scope of the ISA could be further extended by national provisions. Two MG members were of the view that the Board should look to developing a globally feasible standard to address securities offering documents and describe the minimum level of work required from auditors on such documents, taking into account variations in laws and regulations across jurisdictions.

IAASB Decisions

12. The IAASB acknowledged the broad support for the definitions of "other information" and "annual report" included in ED-ISA 720 (2014) and proposed only minor changes to them, and their associated application material (see paragraphs 12(a), 12(c), and A1–A5 of ISA 720 (Revised)). In recognition of the comments about the need for clarifying whether particular documents are, or should be, included or excluded from the scope of the ISA, the Board added application material to clarify that:
 - When the financial statements being audited are prepared for a period less than or more than a year, an annual report that covers the same period as the financial statements may also be prepared (see paragraph A2 of ISA 720 (Revised)).
 - Even when the document is required to be made publicly available, a standalone report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective is different in nature, purpose, and content from an annual report, and therefore is not other information within the scope of ISA

720 (Revised). To further address the concern about whether capital adequacy reports are within the scope of the ISA, such reports were included as an example of a document that is not within the scope of the ISA (see paragraph A5 of ISA 720 (Revised)).

13. Application material in ED-720 (2014) indicated that integrated reports may or may not be 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. In light of feedback from respondents, the IAASB determined that this reference to integrated reports could become unhelpful or misleading over time because, in the future, the status of integrated reports may change (that is, it may become common for the annual report to be an integrated report). Accordingly, the IAASB agreed to delete this application material so as not to lead the auditor to the wrong conclusion in particular circumstances when an integrated report may be within the scope of the ISA.
14. The IAASB also noted the view of two MG members that the Board should look to developing a globally feasible standard to address securities offering documents. The IAASB's Innovation Working Group has been established to assist the Board in identifying new areas for future consideration in emerging areas of audit, assurance and related services, which may include work on other financial and non-financial information with which practitioners may be associated (see paragraphs 13–15 of the IAASB's [Work Plan for 2015–2016](#)).

The Nature and Extent of the Auditor's Responsibilities Relating to Other Information, Including the Work Effort

Background and Summary of Comments Received on Re-Exposure

15. The key work effort requirements of ED-720 (2014) required the auditor to read the other information and, in doing so, consider whether there was a material inconsistency between the other information and the financial statements or the auditor's knowledge obtained during the course of the audit, while also remaining alert for other indications that the other information appears to be materially misstated. The IAASB also included in application material examples of procedures that the auditor may perform in considering whether there is a material inconsistency between the other information and the financial statements, acknowledging that the nature and extent of such procedures is a matter of professional judgment.
16. Overall, respondents from across the stakeholder spectrum were supportive of the proposed work effort and noted that the proposals were an improvement over ED-720 (2012). However, respondents also criticized aspects of the overall expression of the auditor's work effort, including expressing concerns that:
 - The term "consider" is imprecise and difficult to translate;
 - The work effort is too judgmental; and
 - The work effort should be framed in terms of outcomes.

A few respondents were of the view that the phrase "appears to exist" or "apparent" should be used in specific places within the work effort requirements to better reflect the auditor's work effort and to more clearly differentiate the ISA 720 work effort from that of an assurance engagement.

17. Respondents generally supported the requirement in ED-720 (2014) to 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. Some respondents were opposed to the term “limited” either because they were of the view that it may be confused with limited assurance or because they thought that the procedures should not be limited. Concerns were also expressed about the use of the term “evaluate” given its definition in the *Glossary of Terms* in the *IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

18. In relation to the requirement to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit, some concerns were expressed that the auditor may not have the necessary expertise to adequately consider all aspects of the other information, particularly non-financial and prospective information, and therefore should not be required to read and consider this information. Others believed that it should be clarified that auditors are not expected to perform the same nature and extent of procedures for matters on which they do not have the relevant competence.
19. In relation to the requirement to remain alert for other indications that the other information appears to be materially misstated, many respondents expressed concerns about the requirement to “remain alert,” noting variously that it was unclear, could be wrongly interpreted as being more onerous than is intended, or that it is difficult to distinguish from the requirement to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit.
20. MG members focused on the need for additional specificity in the work effort requirements to ensure consistency in practice. For example:
 - The phrase “shall consider,” which is used in several places in the work effort, was not precise and was difficult to translate in other languages;
 - The illustrative procedures in the application material should be mandatory;
 - The “limited procedures” concept should be extended to the requirements to compare the other information with the auditor’s knowledge obtained during the audit and to “remain alert;” and
 - A high level of consistency could be achieved if the IAASB were to include criteria on the circumstances in which, and the extent to which, procedures should be performed or actions taken by an auditor.
21. In other comments on the key work effort paragraphs, a MG member noted that the requirement to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the audit should include making reference to audit documentation or members of the engagement team (or component auditors) as necessary.

IAASB Decisions

22. The IAASB agreed that further refinement of the key work effort requirements was needed to achieve an appropriate balance between setting principles-based requirements and providing sufficient specification of the work effort, particularly as it relates to the nature and extent of the procedures to be performed. In achieving this balance, the IAASB also recognized that it was critical that the work effort be clear and unambiguous to avoid the perception that ISA 720 (Revised) required the auditor to obtain assurance on the other information.

23. To this end, the IAASB agreed not to use the term “limited procedures” in the ISA, recognizing that the term “limited” could be interpreted in different ways, including being confused with “limited assurance engagements.” Instead, as the basis for the auditor’s consideration of whether there is a material inconsistency between the other information and the financial statements, ISA 720 (Revised) requires the auditor to compare selected amounts or other items in the other information with such amounts or other items in the financial statements to evaluate their consistency (see paragraph 14(a) of ISA 720 (Revised)). The IAASB noted that this approach addresses the concerns about the lack of specificity by requiring the auditor to perform a specific action – a comparison – rather than the more general “limited procedures.”
24. The IAASB also noted the concerns about the lack of specificity in ED-720 (2014) about the requirement to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained during the course of the audit. After exploring a number of alternatives, the IAASB concluded that the “intelligent read” envisaged by this requirement should be articulated as being undertaken “in the context of audit evidence obtained and conclusions reached in the audit” (see paragraph 14(b) of ISA 720 (Revised)). In making this decision, and taken together with the application material (see paragraphs A33–A36 of ISA 720 (Revised)), the IAASB has reinforced the scope of the comparison with the auditor’s knowledge, while avoiding the risk that the auditor would be required to perform an exhaustive search of the audit documentation (or make exhaustive inquiries of engagement team members or component auditors).
25. In relation to the requirement to remain alert for other indications that the other information appears to be materially misstated, the IAASB appreciated the concerns expressed about the impression given by the requirement. The IAASB concluded that the requirement is necessary as it covers aspects of the other information that would otherwise be addressed only by the auditor’s ethical obligations. However, to better highlight this link, the IAASB added additional application material (see paragraph A38 of ISA 720 (Revised)) which links the requirement to “remain alert” to the auditor’s ethical obligations and illustrates the rationale for the requirement to “remain alert.” The IAASB also separated the requirement from the rest of the work effort to reinforce that this requirement is of a wholly different nature than that of paragraph 14 (see paragraph 15 of ISA 720 (Revised)). The IAASB also avoided the possible overlap with the comparison with the auditor’s knowledge by explaining that the requirement to remain alert was concerned with other information “not related to the financial statements or the auditor’s knowledge obtained in the audit.”
26. In relation to the other major points made by respondents:
- The IAASB discussed alternatives to the term “shall consider” but determined that the word “consider” – meaning “reflect upon” – appropriately captured the intended level of work effort. Alternatives such as “evaluate,” “assess,” and “conclude” were considered but rejected due to the perception that these terms implied an assurance level of work on the other information.
 - The IAASB considered but rejected having a requirement to perform “limited procedures” (or another action-oriented requirement) for paragraph 14(b) or 15 of ISA 720 (Revised). In making this decision, the IAASB focused on the addition of the reference to “audit evidence obtained and conclusions reached in the audit” in paragraph 14(b) as a way of strengthening the requirement without requiring auditors to do an exhaustive search of audit documentation. The IAASB also noted that the requirement to “remain alert” is intrinsic to the “intelligent read” of other information that is unrelated to the financial statements or the auditor’s knowledge

obtained in the audit. Therefore, there is no single procedure or set of procedures that the auditor would perform to “remain alert.”

- The IAASB did not believe that the phrase “appears to exist” or “apparent” should be used in specific places within the work effort requirements. The IAASB noted that no reader would be in a better place than the auditor to determine whether a material misstatement exists and it would be problematic for the auditor to report publicly regarding a material misstatement that the auditor is not certain exists. The IAASB also noted that extant ISA 720 also requires the auditor to determine if the other information needs to be revised and does not use the term “appears to exist” or “apparent.”
27. Recognizing the need to further support consistent application of the requirements, the IAASB also added new application material that:
- Highlights the matters on which the auditor may focus when considering whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit (see paragraph A33 of ISA 720 (Revised)).
 - Explains that, in many cases, recollection alone may be sufficient to consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit, particularly when the auditor is more senior and more familiar with the key aspects of the audit (see paragraph A34 of ISA 720 (Revised)).
 - Provides examples of circumstances when the auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors is appropriate as the basis for the auditor’s consideration of whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit (see paragraph A35 of ISA 720 (Revised)).
 - Clarifies the link between the requirement to “remain alert” and the auditor’s ethical obligations, as well as explaining the possible outcomes of remaining alert for other indications that the other information appears to be materially misstated (see paragraph A38 of ISA 720 (Revised)).
28. Further, the IAASB noted that some respondents remained concerned about the potential for the work effort to be seen as approaching that of an assurance engagement. One IAASB member also shared this view. In addition to the changes noted above, the IAASB also inserted new application material to address the concern that the auditor was required to come to a conclusion as to whether the other information is materially misstated, even when dealing with aspects of the other information that may be entirely unrelated to the financial statements or the audit. This application material explains that, when the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management’s expert or legal counsel) (see paragraph A35 of ISA 720 (Revised)). The application material also notes that, after considering the responses from management’s consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists and provides examples of actions the auditor may then take.

Definition of a Misstatement of the Other Information

Background and Summary of Comments Received on Re-Exposure

29. ED-720 (2014) defined a misstatement of the other information as:

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.

30. Some of the concerns expressed by respondents to ED-720 (2014) about this definition were interrelated with concerns about the work effort, in that the ISA requires the auditor to read and consider all information within scope, regardless of how closely it may be related to the financial statements or to the auditor's knowledge obtained during the course of the audit. In summary, the concerns were that this possible lack of expertise, combined with the lack of suitable criteria, makes it difficult for the auditor to assess whether information is misstated, particularly with regard to omissions or obscured information.
31. Concerns were also expressed about the inclusion of the concept of materiality in the definition of a misstatement of the other information, and that ED-720 (2014) applied a materiality concept derived from financial statement frameworks to other information. Respondents suggested that a description of materiality, rather than a definition, should be included in either the scope or application material consistent with the approach used in ISA 320²² and that the description should be related to the potential for the misstatement to undermine the credibility of the other information rather than those that can reasonably be expected to influence the economic decisions of users. This is because they believed it would be difficult for auditors to assess what misstatements in the other information could reasonably be expected to influence the economic decisions of a wide range of users. A few respondents were also of the view that linking materiality in the context of other information to the economic decisions of users would imply that the work effort required in ISA 720 serves to increase the confidence of users in the other information, which would blur the distinction between the objective of an assurance engagement and the objective of ISA 720.
32. Other respondents believed that the term "misstatement" should not be used at all, due to the possible confusion with the term "misstatement" as it relates to a financial statement audit.
33. Finally, MG members were of the view that the ISA should describe the relationship between a material inconsistency and a material misstatement of the other information. A MG member, among other respondents, also noted that the inclusion of the phrase "recognizing that the other information is only part of the overall information available to users" in the definition of a material misstatement of the other information was difficult to understand.

IAASB Decisions

34. Recognizing that the majority of respondents either explicitly supported the term "misstatement of the other information" and the definition thereof, or did not suggest changes to either, the IAASB concluded that the term "misstatement" should be retained (see paragraph 12(b) of ISA 720

²² ISA 320, *Materiality in Planning and Performing an Audit*

(Revised)). In coming to this conclusion, the IAASB did not believe that users would confuse the use of the term “misstatement of the other information” with the concept of a misstatement of the financial statements due to the clear caveats that accompany the auditor’s reporting on the work effort on other information (see paragraphs 51–57 below).

35. However, to address some of the concerns expressed by respondents, the IAASB proposed changes to the definition of a misstatement of the other information as follows:
- In response to the concern that the auditor is not always able to assess the omission or obscurity of aspects of the other information (particularly when unrelated to the financial statements or the auditor’s knowledge obtained in the audit), the definition now makes clear that the auditor is only concerned with omissions or obscured information relating to a matter already disclosed in the other information.
 - The definition of a misstatement of the other information no longer includes reference to materiality. “Materiality” is defined in the ISAs in the context of a financial statement audit. Most IAASB members were of the view that referring to “materiality” in the context of the auditor’s work on other information risked confusion with the concept as it applies to a financial statement audit. The IAASB also noted that reference to the materiality of a misstatement is included in the introduction to the ISA (see paragraph 3 of ISA 720 (Revised)) and, therefore, removing it from the definition would not lose the important message that a material misstatement of the other information may inappropriately influence the economic decisions of users for whom the auditor’s report is prepared.
 - The phrase “recognizing that the other information is only part of the overall information available to users” was removed in response to concerns expressed on exposure about the lack of clarity of that phrase.
36. The IAASB also recognized the need for further application material to assist in the practical application of the definition (see paragraphs A6–A7 of ISA 720 (Revised)). Accordingly, new application material has been included which explains that, when a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. The application material also explains further how the concept of materiality applies to a misstatement of the other information, along the lines of how materiality is approached in ISA 320.
37. The IAASB did not see merit in defining the concept of a material inconsistency. This is because the IAASB intended for the term “material inconsistency” to be used in a non-technical sense, and not be complicated by additional definitions. When the auditor identifies that a material inconsistency appears to exist (whether between the other information and the financial statements or the auditor’s knowledge obtained in the audit), it is only the first step in determining whether the other information itself is misstated. To this end, the auditor is required to discuss the matter with management and, if necessary, perform other procedures to conclude whether
- (a) A material misstatement of the other information exists;
 - (b) A material misstatement of the financial statements exists; or
 - (c) The auditor’s understanding of the entity and its environment needs to be updated.

Application material notes that, based on management’s further explanations about a material inconsistency that appears to exist, the auditor may be satisfied that the other information is not

materially misstated (see paragraph A39 of ISA 720 (Revised)). The IAASB also included application material to address the circumstance when the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated (see paragraph A43 of ISA 720 (Revised)).

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

Background and Summary of Comments Received on Re-Exposure

38. ED-720 (2014) noted 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. Overall, respondents supported this position, including the view that the IAASB should not mandate reporting on such other information. These respondents also supported the ED position that, when such other information is materially misstated, the auditor is required to 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.
39. Respondents expressing concern with these proposals were of two different views: those who were opposed to the auditor having any responsibility for the other information obtained after the date of the auditor's report and those who preferred a strengthened responsibility for such other information.
40. Those opposed to the auditor having any responsibility for such other information focused on the lack of consistency across jurisdictions arising from the differing legal environments, the possible inability of the auditor to perform the procedures required by the ISA when the engagement has been completed (for example, when the auditor has issued the auditor's report and will not be the auditor of the financial statements for the subsequent period), and the difficulty in prescribing procedures for the auditor to undertake if a material misstatement is discovered in such other information. This issue would be exacerbated by jurisdictions in which auditors will be required to rotate on a regular basis.
41. Those who preferred a strengthened responsibility for such other information, including a MG member, noted that the auditor should be required to identify in the auditor's report the documents that are expected to comprise the other information obtained after the date of the auditor's report and the expected work effort on such other information.
42. Further, other MG members did not believe that, when the auditor finds a material misstatement in such other information, it was in the public interest for the auditor's obligations to be limited to, or described only in the context of, "tak[ing] appropriate action," instead preferring that the ISA stipulate the actions that should be taken, including, for example, providing a new or revised auditor's report. In relation to application material that gives the example of one possible action being "bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared", a MG member asked how the auditor could identify the users and inform those users of the material misstatement of the other information.

IAASB Decisions

Improving Transparency about Other Information Obtained after the Date of the Auditor's Report

43. In seeking a practical way forward, the IAASB acknowledged that, while there was general support for the position adopted in ED-720 (2014), there was also merit in seeking to provide greater transparency about the auditor's involvement with other information obtained after the date of the auditor's report when practicable. The IAASB reaffirmed that the auditor's work effort, and the need to take appropriate action if there is a material misstatement of such other information, should be as similar for all entities as is practical in the circumstances, with one member being of the strong view that differential reporting between entities was not appropriate. After discussing the issue of reporting regarding such other information and considering the merits of various options,²³ the Board concluded that requiring auditors of financial statements of listed entities to identify, in the auditor's report, other information not yet received at the date of the auditor's report would improve transparency for those entities where law or regulation was most likely to clearly set out the expected nature, content and timing of such other information. For other entities, the majority of the IAASB determined that the practical difficulties that may be encountered (that is, there may be no legal or regulatory obligation to prepare such other information or such law or regulation may not be as explicit) outweighed the public interest benefits of aligning the reporting with that of listed entities. Notwithstanding this conclusion, the IAASB included application material to indicate that, for audits of entities other than listed entities, the auditor may consider identifying the other information expected to be obtained after the date of the auditor's report that is subject to the auditor's responsibilities (for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report) in order to provide transparency (see paragraph A52 of ISA 720 (Revised)).
44. To enhance the likelihood that the other information yet to be obtained will actually be obtained by the auditor, the IAASB also included a requirement which states that, when some or all of the document(s) determined to comprise the annual report will not be available until after the date of the auditor's report, the auditor shall request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by ISA 720 (Revised) (see paragraph 13(c) of ISA 720 (Revised)).
45. This new requirement provides for a greater interaction with management about its intention to issue such other information. Application material that had been retained from ED-720 (2014) notes that "if the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this ISA" (see paragraph A17 of ISA 720 (Revised)) and, accordingly, a failure to obtain such a representation may support a conclusion that the document will likely never be prepared or issued (and, therefore, would not be other information for the purposes of ISA 720 (Revised)).

²³ Alternative options considered by the IAASB included: the approach adopted in ED-720 (2014), which did not require any reporting regarding other information obtained after the date of the auditor's report and mandating reporting on such other information for all entities, whether listed or other than listed.

Greater Specificity When the Auditor Concludes that There Is a Material Misstatement in the Other Information Obtained after the Date of the Auditor's Report

46. In relation to the concerns about the requirement to “take appropriate action” when the auditor concludes that a material misstatement exists in such other information and has not been corrected, the IAASB explored providing requirements detailing each step that could be undertaken depending on law or regulation, as requested by some MG members. The IAASB concluded that such an approach would not be feasible as it would need to address a wide range of possible circumstances due to the variation in national laws and regulations. The IAASB also noted that such an approach would lead to a more complex ISA and would also unbalance the ISA because the uncorrected material misstatements of such other information are likely to be rare.
47. However, in recognition that additional clarification would aid in understanding the intent of the requirement to “take appropriate action,” the IAASB agreed to describe in the requirement the purpose of the appropriate action, being “to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor’s report is prepared” (see paragraph 19(b) of ISA 720 (Revised)). Adding the purpose of the action provides further context to the need to “take appropriate action” while the use of the term “seek” is intended to convey that the auditor may explore various means to inform users, recognizing that the auditor’s ability to communicate directly with users may be limited.
48. The IAASB also considered whether further examples could be provided on what actions might be appropriate in these circumstances. The IAASB agreed to add further details on these actions, including about how the auditor’s report could be reissued, when permitted by law or regulation. The IAASB did not believe that mandating reissuance of the auditor’s report would be in the public interest because reissuance of the auditor’s report is not permitted in some jurisdictions, and reissuing the auditor’s report may negatively affect users’ perception of the auditor’s opinion on the financial statements. The IAASB acknowledges that this is a difficult balance to strike – a point made also at the IAASB CAG.
49. In response to the question by a MG member about how, in relation to other information obtained after the date of the auditor’s report, the auditor could identify the users of the auditor’s report and inform them of a material misstatement (see paragraph A50 of ISA 720 (Revised)), the IAASB noted that, given the broad range of audit engagements and associated law and regulation around the world, it would not be possible to specify the users of the auditor’s report in ISA 720 (Revised). However, to aid in clarifying the IAASB’s intent, the application material now includes an example of how this might be achieved by addressing the matter in a general meeting of shareholders.
50. Consistent with extant ISA 720, the IAASB did not support an arbitrary cut-off in the auditor’s responsibilities relating to other information at the date of the auditor’s report. In arriving at this decision, the IAASB considered various suggestions for cut-off points, including 60 days after the date of the auditor’s report (as per ISA 230)²⁴ and the issuance of the next auditor’s report (including a review report). However, the IAASB noted that all of these left open the possibility that a document that was determined to be part of other information, and therefore within the scope of ISA 720 (Revised), would not be subjected to the procedures considered appropriate for other information. The IAASB also noted that two enhancements to the scope of the ISA, being linking the definition of other information to an “annual report” and requiring the auditor to request a written

²⁴ ISA 230, paragraph A21

representation when other information is expected to be available only after the date of the auditor's report, should assist the auditor in obtaining the information in a timely manner.

Reporting on the Auditor's Work Relating to Other Information

Background and Summary of Comments Received on Re-Exposure

51. Reporting on the auditor's work relating to other information in accordance with ISA 720 (Revised) is one facet of the IAASB's work to more broadly enhance the communicative value of the auditor's report through the development of new and revised Auditor Reporting standards. ED-720 (2014) required the auditor to include a section addressing other information in the auditor's report when other information was obtained prior to the date of the auditor's report. The section was required to identify the other information obtained, state that the auditor had not audited the other information and accordingly did not express an audit opinion or any form of assurance conclusion thereon, describe the auditor's responsibilities relating to other information, and include a statement either describing a material misstatement (if one exists) or stating that the auditor had nothing to report. No section was required to be included in the auditor's report if no other information was obtained prior to the date of the auditor's report.
52. Respondents generally supported the reporting requirements in ED-720 (2014), including the illustrative statement in the auditor's report, and noted the proposed statements provided greater transparency about the auditor's responsibilities for the other information. However, concerns that were expressed included:
 - Management's responsibility for the other information should be described in the illustrative statement;
 - The auditor's responsibilities should be more extensively described, particularly to highlight the limits of the auditor's work on other information and link more closely to the requirements in the ISA. For example, one MG member recommended that the illustrative section state that "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."
 - The reference to the auditor remaining alert for other indications that the other information may be materially misstated should not be included in the auditor's responsibilities, as users may misinterpret this statement.
 - The phrase "we have nothing to report in this regard" was not supported by a minority of respondents who noted, for example that, due to the conclusion implied by this phrase, users may inappropriately take assurance when none was intended.
53. Respondents also commented on the implications of other information obtained after the date of the auditor's report, which resulted in some further changes to the reporting requirements and the illustrative statements (see paragraphs 38–50 above).

IAASB Decisions

54. After exploring different levels of granularity to describe the auditor's responsibilities relating to other information in the auditor's report, the IAASB agreed to make limited changes to the reporting requirements and the illustrative statements in light of the comments received.

55. The IAASB agreed with respondents who believed that clarifying that the auditor's opinion on the financial statements does not cover the other information is helpful in addressing the risk that an expectations gap might arise (see paragraph 22(c) of ISA 720 (Revised)). However, the IAASB did not believe it was necessary to note in the illustrative statements that ISA 720 (Revised) does not require the auditor to obtain audit evidence beyond that required for an audit of financial statements, as this was seen to be too technical for investors and other users to understand. The IAASB also agreed that reference to management's responsibility for the other information in the illustrative statement would aid in minimizing the expectations gap. The IAASB noted that it would be unhelpful if the level of detail in the Other Information section detracted from the auditor's responsibilities for the audit itself.
56. The description of the auditor's responsibilities has also been amended in light of the changes made to the work effort. While the IAASB was cognizant of the benefits of a precise description of the auditor's responsibilities using the same language as the requirements within the ISA, the IAASB determined that the section of the auditor's report addressing other information should be of a length and tone such that it fits appropriately with the rest of the auditor's report.
57. Consistent with ED-720 (2014), Appendix 2 of the ISA includes illustrations outlining how the reporting on other information may appear under different circumstances:

Circumstance	Listed Entities	Other Than Listed Entities
All other information obtained prior to the date of the auditor's report and no material misstatement of the other information has been identified	Illustration 1	
Some other information obtained prior to the date of the auditor's report and no material misstatement of the other information has been identified, but some other information is expected after that date	Illustration 2	Illustration 3
All other information to be obtained after the date of the auditor's report	Illustration 4	No reporting required
All other information obtained prior to the date of the auditor's report and the auditor has concluded that a material misstatement of the other information exists	Illustration 5	
All other information obtained prior to the date of the auditor's report, the auditor's opinion on the consolidated financial statements is qualified and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information	Illustration 6	

Circumstance	Listed Entities	Other Than Listed Entities
All other information obtained prior to the date of the auditor's report, the auditor's opinion on the consolidated financial statements contains an adverse opinion, and the adverse opinion on the consolidated financial statements also affects the other information	Illustration 7	

Documentation

Summary of Comments Received on Re-Exposure

58. ED-720 (2014) contained a single requirement that the auditor retain in the audit documentation the final version of the other information on which the auditor has performed the work required under ISA 720 (Revised).
59. While most respondents did not mention the documentation requirement, some concerns were expressed and additional guidance recommended in relation to specific aspects of documentation. In particular, respondents sought clarity as to whether the IAASB intended for ISA 230 to apply to the auditor's work in accordance with ISA 720 (Revised).
60. Two MG members noted variously that the documentation requirements of the ISA appear to be at a relatively low level, and that there was little guidance to the auditor regarding an acceptable level of detail necessary to evidence the work effort performed.

IAASB Decisions

61. The IAASB agreed with respondents that further clarity about the relationship between ISA 720 (Revised) and ISA 230 was warranted. The overarching requirements in ISA 230 for the documentation of significant professional judgments made in reaching conclusions on significant matters arising during the audit appropriately address the documentation of significant judgments made in relation to ISA 720 (Revised). However, paragraph 25 of ISA 720 (Revised) was strengthened to explicitly link the documentation requirement in ISA 720 (Revised) to ISA 230.
62. To further strengthen the requirement and to respond to the views of regulators about the importance of the standard being able to be appropriately inspected or enforced, the IAASB also agreed to specifically require documentation of the procedures performed under ISA 720 (Revised). The IAASB also notes that this level of detail is consistent with other ISAs.²⁵

Conforming and Consequential Amendments to Other ISAs

63. ED-720 (2014) included proposed changes to a number of ISAs as a result of the changes proposed to ISA 720. Respondents did not raise major concerns with these conforming and

²⁵ For example, paragraph 29 of ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* states "The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity."

consequential amendments. Accordingly, only minor changes were proposed to these conforming and consequential amendments.

64. Additional conforming amendments to ISA 800 that were not included in ED-720 (2014) have been exposed in the [January 2015 Exposure Draft](#) addressing reporting on special purpose financial statements.

Post-Implementation Review

65. The new and revised Auditor Reporting standards were released in January 2015, and will be effective for audits of financial statements for periods ending on or after December 15, 2016. The IAASB intends to undertake a post-implementation review of the new and revised Auditor Reporting standards after a period of two years from the effective date. The objective of this review will be to assess whether the new and revised Auditor Reporting standards have achieved their intended effect, and to assist the IAASB in, among other matters:
- Determining whether requiring wider application of the requirements initially limited to audits of financial statements of listed entities would be in the public interest;
 - Understanding the way in which the requirements in the standards have been adopted and implemented by various jurisdictions in light of their national frameworks; and
 - Considering whether further enhancements to auditor reporting are necessary, for example as a result of developments at the national level.
66. The post-implementation review may also identify how practical challenges and concerns are being addressed in practice (by auditors, management and audit committees), and whether further enhancements or refinements to the standards, or additional implementation support, is needed.
67. Given that the IAASB's changes to ISA 720 (Revised) also impact the auditor's report and the standard will become effective at the same time as the Auditor Reporting standards, the IAASB has concluded that ISA 720 (Revised) should be included in the post-implementation review of the new and revised Auditor Reporting standards.

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