

**The Auditor's Responsibilities Relating to Other Information in Documents
Containing Audited Financial Statements—
Issues and IAASB Task Force Proposals****Objective of this Paper**

1. To consider the significant issues that should be addressed in revising the clarified ISA 720.¹

Introduction

2. The objective of the project, as set out in the project proposal, is to “revise ISA 720 to ensure that the ISA continues to be capable of enhancing the credibility of financial statements through specifying appropriate responsibilities of the auditor relating to the range of other information in documents containing audited financial information and taking account of how such information is disseminated.”
3. The Task Force has focused its considerations to-date on the significant issues which, in the Task Force's view, have implications for the scope of the revised ISA 720. They are as follows:
 - (a) Types of documents that should fall within the scope of ISA 720, in particular:
 - Whether the scope of ISA 720 should be expanded to address other public documents containing audited financial information in addition to annual reports (or similar documents).
 - Whether similar requirements and guidance to those in ISA 720 should apply to engagements involving interim financial information.
 - Whether guidance should be provided on the key features of documents that would be deemed to fall within the scope of ISA 720.
 - (b) The auditors' work effort in regard to other information in documents that fall within the scope of ISA 720 (“the other information”), in particular:
 - Whether the work effort required of the auditor when reading such other information should be clarified.
 - Whether the distinction between the terms “inconsistencies” and “misstatements of fact” is sufficiently clear in extant ISA 720.
 - (c) Electronic dissemination of audited financial information, in particular:
 - Whether, and to what extent, the matter of electronic dissemination of audited financial information should be addressed in ISA 720.
4. The Task Force notes that apart from the issues outlined above, there are other matters that will need to be addressed in the revision of ISA 720. Some examples of these other issues are outlined in the “Other Matters” section in this issues paper.

¹ ISA 720, “The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.”

Significant Issues

Documents Containing Audited Financial Statements Addressed by ISA 720

Expansion of the Scope of ISA 720

5. The scope of extant ISA 720² applies to “annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor's report thereon.” Supporting guidance³ provides examples of documents that are similar to annual reports in the context of smaller sized entities, for instance where a legal requirement exists for an accompanying report by those charged with governance.
6. Extant ISA 720 also recognizes that it may be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements, such as documents used in securities offerings.
7. The corporate reporting environment has evolved significantly since ISA 720 was last revised in 1993. Entities have embraced a variety of mechanisms with the aim of communicating more effectively with their stakeholders. In addition to the annual report, other documents that contain audited financial statements have taken on a heightened level of importance. Examples include interim reports, summary financial reports, shelf registration documents and prospectuses.
8. An objective of the project is to revise extant ISA 720 to ensure its continued relevance in view of the changes to corporate financial reporting. To this end, bearing in mind the objective of ISA 720,⁴ the Task Force considered the reasons for the extant ISA’s focus on annual reports (or similar documents) that are issued to owners (or similar stakeholders). This consideration is relevant to the determination of whether the scope of the extant ISA should be expanded to include other documents containing audited financial statements.
9. In this regard, the Task Force believes that the following considerations are of relevance:
 - In assessing the scope of ISA 720, it is necessary to consider the auditor’s objective under ISA 720 vis-à-vis the auditor’s *other* responsibilities specified in the other ISAs. In particular, ISA 560⁵ states that the auditor has *no* responsibility to perform any procedures regarding the financial statements *after* the date of the auditor’s report. Accordingly, in the context of the auditor’s responsibilities under ISA 720, the documents that fall within the scope of ISA 720 would need to be prepared within the same timeframe as the financial statements, and with the intention of being made available to the auditor prior to the date of the auditor’s report.

Furthermore, one of the reasons given in ISA 720 for requiring the auditor to read the other information in documents containing the audited financial statements is to

² ISA 720, paragraph 2.

³ ISA 720, paragraph A2.

⁴ ISA 720, paragraph 4 states, “The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor’s report thereon include other information that could undermine the credibility of those financial statements and the auditor’s report.”

⁵ ISA 560, “Subsequent Events,” paragraph 10.

identify material inconsistencies that may have an effect on the audited financial statements and the auditor's report.⁶ This provides further support for the scope of ISA 720 to be focused on documents that are intended to be prepared within the same timeframe as the financial statements, and with the intention of being made available to the auditor prior to the date of the auditor's report.

- The Task Force recognizes that there are other documents that may contain the audited financial statements and the auditors' report, such as a prospectus. However, requiring the auditor to read these documents as part of the auditor's responsibilities under the ISAs would not be consistent with the requirements of ISA 560 as explained.
10. Accordingly, the Task Force believes that the current focus of ISA 720 on annual reports (or similar documents) that are issued to owners (or similar stakeholders) continues to be appropriate and importantly, is consistent with the auditor's responsibilities under other ISAs.
 11. The Task Force therefore recommends that the scope of ISA 720 not be expanded to include other documents. It is proposed however that the explanation for extant ISA 720's focus on annual reports (or similar documents) that are issued to owners (or similar stakeholders), and the explanation as to why other documents which include the financial statements and the auditor's report are not covered by extant ISA 720 be specified in ISA 720. This is in response to concerns brought to the Task Force's attention that in some cases, documents may incorrectly be construed to fall within the description of "documents containing audited financial statements" as contained in the ISA when in fact they should not.

Laws and Regulations Exception Clause

12. For reference, paragraph 2 of extant ISA 720 states:

This ISA may be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements such as those used in securities offerings.

13. The Task Force noted that in certain cases, laws and regulations in national jurisdictions may dictate the auditor's responsibilities regarding documents commonly issued by entities. For instance, in the case of prospectuses, the Prospectus Directive in the European Union (EU) and Section 7110⁷ in Canada. It noted that for some of these cases, local laws and regulations may impose responsibilities on the auditor to perform procedures similar to those in ISA 720 to other documents that include the audited financial statements and the auditor's report, such as those used in securities offerings.

⁶ ISA 720, paragraph A5 states, "Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis."

⁷ The Canadian Auditing and Assurance Standards Board's Assurance Section 7110, "Auditor Involvement with Offering Documents of Public and Private Entities."

14. The Task Force is of the view that ISA 720 may be enhanced by recognizing in the ISA that, in some cases, the auditor may be required by law or regulation to apply requirements and guidance similar to those in ISA 720 to documents outside of the scope of the ISA. The Task Force further recommends clarification in ISA 720 that such responsibilities are outside of the obligations of the auditor under the ISA. Related to this, the Task Force noted that when the auditor is required by local laws and regulations to carry out work on such documents, the auditor is generally required to report on such documents, either by exception or by issuing an opinion. In such cases therefore, the auditor has a specific reporting responsibility which is outside of the requirements of ISA 720.

Application of ISA 720 Requirements to Engagements Involving Interim Financial Information

15. In considering whether the scope of extant ISA 720 should be expanded, the Task Force recognized that it is now common for larger entities globally to prepare reports for interim periods that include other information similar to that included in the entities' annual reports. Such an "interim report" includes interim financial information and, where applicable, the auditor's review report on the information.
16. In this regard, the Task Force is of the view that the objectives of ISA 720 are also relevant to these "interim reports" and accordingly, it is appropriate for the work effort prescribed in ISA 720 to be applied in these cases. The Task Force does not however believe that it would be appropriate to expand the scope of ISA 720 to include such "interim reports" as this would run contrary to the objective of keeping the ISAs applicable only to audits of financial statements.
17. On this basis, the Task Force proposes that the necessary revisions be made in ISRE 2410.⁸ It is recommended that ISRE 2410 be revised to include the requirements and guidance of ISA 720 that are relevant to "interim reports."

Key Features of Documents That Fall within the Scope of ISA 720

18. The Task Force considered that although ISA 720 does not contain a definition of "annual report,"⁹ determining the types of documents that fall within the scope of extant ISA 720 is key to the proper application of the ISA. This is compounded by the fact that across jurisdictions, different terminology may be used to describe the documents which, in the context of the ISAs, are envisaged to constitute an annual report or conversely, the term "annual report" may be used to refer to documents different from that envisaged by ISA 720. On the other hand, entities may also (voluntarily or mandatorily) produce documents that may contain similar information to that typically found in annual reports but for a different purpose and distributed to other stakeholders. Examples considered by the Task Force include the shelf registration document required by the stock exchange regulators in France and Brazil.

⁸ International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

⁹ The Glossary of Terms defines annual report as, "A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon."

19. As it is the case that there is no generally accepted definition of “annual report,” the Task Force felt it is unlikely that a generic definition could usefully be formulated for purposes of the ISAs which would sufficiently accommodate the diversity of such documents across jurisdictions. Notwithstanding this, the Task Force saw benefits in describing the key features of the documents that would ordinarily be considered to fall within the scope of ISA 720. Such description would provide the necessary guidance when determining the documents to which the requirements and guidance in ISA 720 is intended to apply.
20. In this regard, the Task Force is of the view that the following are key features of the documents that would ordinarily be considered to fall within the scope of ISA 720:
- *Contents of the document.* Includes the entity’s financial statements together with the auditor’s report on the financial statements. In most cases, the document includes other information such as management commentary,¹⁰ corporate governance statement and the directors’ report.
 - *Intended recipients of the document.* Prepared to meet the needs of existing owners of the entity, or similar stakeholders, as the primary capital providers and therefore the primary users of the document.
 - *Timing at which the document is made available.* Prepared and intended to be issued annually, and at a similar time as the audited financial statements and auditor’s report.
 - *Conditions under which the document is issued.* Prepared and issued for a similar purpose as the audited financial statements and auditor’s report
21. Accordingly, the Task Force recommends that ISA 720 includes a description of the key features of the documents that would ordinarily be considered to be within the scope of the ISA.

¹⁰ Management commentary may be referred to in national jurisdictions as, for example, management discussion and analysis, operating and financial review or management’s report.

Matters for IAASB’s Consideration

The IAASB is asked:

- Whether it agrees that the current focus of ISA 720 on annual reports (or similar documents) that are issued to owners (or similar stakeholders) continues to be appropriate?
 - If so, whether the reason for ISA 720’s focus on such documents and its exclusion of other documents should be clarified in the standard, and
 - Whether examples should be included on the types of documents to which ISA 720 is not intended to apply?
- Whether guidance should be included to recognize the existence of local laws and regulations that may mandate work efforts similar to that required by ISA 720 to be applied to other documents, and that such responsibilities go beyond those of the auditor’s responsibilities under the ISA?
- Whether it agrees with the proposed revision to ISRE 2410 to recognize that the work effort required by ISA 720 is appropriately applied in engagements to review interim financial information in some circumstances?
- Whether it agrees that, rather than providing a generic definition of “annual report (or similar document),” ISA 720 should describe the key features of the documents that would fall within the scope of the ISA?
 - If so, whether it agrees with the key features identified?

Other Information Included in Documents that Fall Within the Scope of ISA 720

Defining Other Information

22. For reference, extant ISA 720¹¹ contains the following definition of “other information”:

Financial and non-financial information (other than the financial statements and the auditor’s report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor’s report thereon.

Supporting guidance provides examples of what such other information may be and examples of other information that is not encompassed within the ISA’s definition.

23. In considering the definition of other information, the Task Force was of the view that distinguishing between the nature of the other information i.e., financial and non-financial, adds little to the definition. It felt that other information can simply be described by stating it is information, other than the audited financial information, that is contained in the documents containing the audited financial statements and the auditor’s report. That is, information which accompanies the audited financial statements and the auditor’s report. The Task Force further considered it may be useful to highlight that other information may consist of information that

¹¹ ISA 720, paragraph 5(a).

relates to the audited financial statements and that which does not. This will provide a linkage back to the auditor's responsibilities under ISA 720 with respect to material inconsistencies and material misstatements of fact.

24. In this regard, the Task Force considered that it may be useful to identify in ISA 720 the sections that are commonly presented in an annual report, for example, management commentary and corporate governance statements, and identifying examples of the types of information that may be found in each of these sections. To some extent, this gives recognition to the trend that of entities disclosing information in their annual reports that are of greater diversity.

Types of Other Information

25. The Task Force considered that the key feature of other information contained in documents that fall within the scope of extant ISA 720 is that such information generally tends to be unaudited. In this regard, the Task Force noted the following matters:
- (a) Some financial reporting frameworks (for example, IFRSs) permit information that is required by the frameworks to be disclosed elsewhere in the annual report as opposed to in the notes that accompany the financial statements; and
 - (b) Entities occasionally include *unaudited* supplementary information in the notes to the financial statements.

It was brought to the Task Force's attention that a clearer distinction may need to be drawn between the two scenarios outlined above.

26. With regard to the first scenario, the Task Force recommends that ISA 720 be expanded to address the auditor's responsibilities when audited financial information is not contained in the notes to the financial statements but is included elsewhere in the annual report.
27. With regard to the second scenario, the Task Force noted that the auditor's responsibilities for unaudited supplementary information are addressed in ISA 700.¹² The Task Force recommends that for clarity, ISA 720 acknowledge the existence of such supplementary information. In this regard, it is proposed that ISA 720 clearly indicates that other information does not include such supplementary information and that the auditor's responsibilities for such information are addressed in ISA 700.
28. The Task Force believes that the revisions proposed above are necessary in order to ensure that the requirements and guidance of both ISA 700 and ISA 720 are well understood and properly applied.

¹² ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements," paragraphs 46-47.

Matters for the IAASB’s Consideration

The IAASB is asked:

- Whether it agrees with the Task Force’s proposal to revise the definition of other information and to provide supporting guidance in this regard?
- Whether it agrees with the Task Force’s proposal to introduce clarifying guidance in relation to the other information as addressed in ISA 720 and unaudited supplementary information as addressed in ISA 700?

The Auditor’s Responsibilities with Regard to Other Information

Reading the Other Information

29. The auditor has a responsibility under ISA 720 to read the other information to identify material inconsistencies with the audited financial statements, if any.¹³ The ISA further emphasizes that the auditor’s opinion does not cover the other information and the auditor has no specific responsibility for determining whether or not such information is properly stated.¹⁴
30. In considering the nature and extent of the auditor’s responsibilities in connection with the other information as set out in the project proposal, the Task Force discussed the procedure required of the auditor to “read the other information.” The Task Force concluded that the intention of the ISA is not just to require the auditor to *read* the other information but for the auditor to *read* the other information and *consider* whether such information is materially inconsistent with the audited financial information. The Task Force is of the view that the latter more fully expresses the intent of the requirement since auditors are unlikely to merely read the other information without applying an appropriate thought-process for otherwise, performance of the procedure is unlikely to result in the achievement of the objective as stated ISA 720.
31. As extant ISA 720 does not contain guidance supporting the requirement for the auditor to read the other information, the Task Force recommends that the ISA be revised as follows:
 - Revising the requirement to include, in addition to reading the other information, the responsibility for the auditor to consider whether such information is materially inconsistent with the audited financial statements. In this regard, the Task Force also discussed the use of the words “assess” and “evaluate” but concluded that using such words may seem to imply that a greater level of work effort is necessary than that envisaged for achieving the objective of ISA 720. Further, usage of such words may be perceived to connote an implied documentation requirement.
 - Providing application guidance in support of the proposed requirement. The Task Force believes it should be clarified that the consideration given by the auditor when reading the other information is performed in light of the auditor’s knowledge of the

¹³ ISA 720, paragraph 6.

¹⁴ ISA 720, paragraph 1.

entity and information acquired during the course of the audit. Guidance may also be provided on the matters the auditor may consider when reading the other information. In connection with this, the Task Force felt that in cases where the other information is derived from the audited financial statements, auditors typically will perform a cross-check of the relevant other information with the audited financial statements.

Material Inconsistencies and Material Misstatements of Fact

32. It was brought to the attention of the Task Force that the terms “material inconsistencies” and “material misstatements of fact,” and their interrelationship as prescribed in ISA 720 may not be sufficiently clear. In particular, although implicit in the definitions of the two terms, the standard does not explicitly explain that by definition, an inconsistency may only arise in the case of other information that is *related* to the audited financial statements while a misstatement of fact may only arise in the case of other information that is *unrelated* to information appearing in the audited financial statements.
33. The Task Force believes it is necessary that there is clarity in this regard since the distinction between “material inconsistencies” and “material misstatements of fact” provides the basis for the auditor’s responses as prescribed in the ISA for each of these cases. Subject to the IAASB’s views on whether ISA 720 should be further clarified, the Task Force will consider how greater clarity may best be achieved for example, reinforcing this relationship in the definition of other information.

Matters for IAASB Consideration

The IAASB is asked:

- Whether it agrees with the Task Force’s proposal to require the auditor when reading the other information, to consider whether such information is materially inconsistent with the audited financial statements in light of the auditor’s knowledge of the entity and information acquired during the audit?
- Whether it agrees with the Task Force’s proposal to clarify the terms “material inconsistencies” and “material misstatements of fact,” and their interrelationship as prescribed in ISA 720?

Electronic Dissemination of the Audited Financial Statements and the Auditor’s Report

34. Extant ISA 720 does not address the method of dissemination of annual reports. Since the standard was last revised in 1993,¹⁵ it is likely that traditional printed hard-copy was, at that time, the method most commonly employed by entities for distributing annual reports although electronic formats of annual reports are likely to have been employed to some extent.

¹⁵ Conforming amendments were made to the ISA 720 when the IAASB issued its audit risk standards in October 2003. Subsequently, as part of the IAASB’s Clarity project, ISA 720 was redrafted (but not revised) and the clarified ISA 720 was released in March 2009.

35. With technological advancements, preparers have increasingly taken to disseminating annual reports through their websites, typically using electronic formats such as HyperText Markup Language (HTML), Acrobat Portable Document Format (PDF) and eXtensible business reporting language (XBRL). In some cases, the swift adoption of new methods for disseminating annual reports may be attributed to developments in local laws and regulations.¹⁶
36. In discussing the matter of electronic dissemination, the Task Force was of the view that the starting point is the audited financial statements and the auditor's report *rather than* the other information which accompanies these statements. Although there are undoubtedly specific considerations which the auditor may need to give in regard to the other information when electronically disseminated, the Task Force felt that, for the purpose of the ISAs, the initial focus should appropriately be on the implications of electronic dissemination on the audited financial statements and the auditor's report. The auditor should take into account the other information, amongst other factors, but as matters relating to the auditor's consideration in this regard.
37. Further, the Task Force drew parallels between the electronic dissemination of audited financial information and circumstances involving: (a) the reproduction of audited financial information in other formats for example, electronic formats such as HTML, PDF, XBRL, and video; and (b) the translation of the audited financial statements and the auditor's report into other languages.
38. When documents containing the audited financial statements and the auditor's report are disseminated electronically, the auditor may be perceived to be associated with these electronic documents even though the auditor has little, if any, control over the circumstances under which the audited financial statements and the auditor's report have been disseminated. Similar consideration may be extended to instances involving the reproduction and translation of audited financial statements and the auditor's report. Specifically, such information may not be correctly reproduced or accurately translated, but the auditor may nevertheless be seen to be associated with that information. Accordingly, for completeness, when considering whether to address the matter of electronic dissemination of the audited financial statements and the auditor's report, it is felt that consideration will similarly need to be given to the matters of reproduction and translation.
39. The Task Force is therefore of the view the extant scope of ISA 720 should be retained, and clarifying guidance introduced in the ISA to indicate that the standard does not deal with matters relating to the dissemination, reproduction, and translation of the audited financial statements and the auditor's report.
40. Notwithstanding this, the Task Force believes that considerations relating to the dissemination, reproduction and translation of the audited financial statements and the

¹⁶ Examples include the US Securities Exchange Commission's new proxy rules passed in January 2007 permitting electronic distribution of key shareholder materials by companies and the passing of the Australian Corporate Law Economic Reform Program Act (2004) Sections 314(4) and (5) which allows for the electronic distribution of the annual report to shareholders in place of the traditional print reports.

auditor's report should be further discussed with the IAASB.¹⁷ The Task Force further notes that these topics may potentially be viewed not only in the context of audit engagements but also in cases where the auditor is engaged to perform other services, such as reviews.

41. In connection with this, the Task Force also discussed the alternative of expanding the scope of ISA 720 beyond the auditor's objective in relation to other information that may undermine the credibility of the financial statements and the auditor's report; although not its preference. Specifically, the ISA may also address other actions of the entity that has implications for the audited financial statements and the auditor's report. The reason being that the auditor may be perceived to be associated with the results of such actions, which may include the following:

- Disseminating documents containing audited financial information electronically (for example, through email and the entity's website);
- Reproduction of documents containing audited financial information into other formats (for example, electronic formats including HTML, PDF, XBRL, and video); and
- Translation of documents containing audited financial information into other languages.

This option has the advantage of addressing more fully, within ISA 720, the considerations and the auditor's responsibilities, if any, in circumstances where there is the likelihood that the credibility of the audited financial information will be undermined or the auditor may be perceived to be associated with results of the entity's actions. It should be noted however that this option would involve a significant expansion to the extant scope of ISA 720. Further, this may also inadvertently shift the focus of the ISA to the topic of the auditor's association with published financial information.

Matters for the IAASB's Consideration

The IAASB is asked:

- Whether it agrees that the extant scope of ISA 720 should be clarified in regard to electronic distribution, reproduction and translation of the audited financial statements and the auditor's report?
 - If not, the IAASB is asked for its views on how these matters may appropriately be addressed?

¹⁷ The Task Force discussed that it may retain the responsibility for dealing with these topics but, necessarily separately from its existing revision of ISA 720. Related to this, it is envisaged that the IAASB's survey on its strategy for 2012-2014 will include the topic of auditor's association with published financial information. Consideration may also be given to whether it is appropriate to address the topics of dissemination, reproduction, and translation of financial information when work commences in that area.

Other Matters

42. It is the Task Force’s intention that discussion of other remaining issues to be considered in the revision of ISA 720 will continue at the June 2010 IAASB meeting. In brief, examples of matters to be addressed include the following:
- The auditors’ work effort with regard to the other information in particular:
 - Who should be reading the other information?
 - Whether, and if so to what extent, reading should be differentiated based on the seniority of the member of the engagement team?
 - What about in the context of a group audit?
 - What, if any, are the auditor’s responsibilities for the following:
 - Adequacy and completeness of the other information?
 - Presentation of the other information?
 - Timing of availability of the other information?
 - Whether guidance should be provided in ISA 720 on matters that the auditor may usefully communicate to those charged with governance if management refuses to revise or correct the other information?
 - Whether documentation requirements in addition to those in ISA 230¹⁸ are required in ISA 720?

Matters for the IAASB’s Consideration

The IAASB is asked for input on any other matters which should be considered in revising ISA 720.

¹⁸ ISA 230, “Audit Documentation.”