

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 720 (REDRAFTED)
READING OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED
FINANCIAL STATEMENTS**

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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to read other information when issuing a report on the financial statements. The auditor reads the other information as the credibility of the audited financial statements may be undermined by inconsistencies which may exist between the audited financial statements and other information. (Ref: Para. A1)
2. This ISA has been drafted in terms of documents containing audited financial statements that are provided to owners on the same terms, and at the same time, as the financial statements, for example documents such as annual reports. This ISA may also be applicable, adapted as necessary in the circumstances, to other documents containing audited financial statements such as those used in securities offerings. (Ref: Para. A2-A7)

Effective Date

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

Objective

4. The objective of the auditor is to avoid association with misleading other information through:
 - (a) Reading other information and considering whether it is inconsistent with the audited financial statements;
 - (b) Responding appropriately to identified material inconsistencies with the audited financial statements; and
 - (c) Responding appropriately to misstatements of fact in the other information that are unrelated to matters appearing in the audited financial statements and of which the auditor becomes aware when reading the other information for the purpose of identifying material inconsistencies.

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:
 - (a) Other information – Financial and non-financial information (other than the financial statements or the auditor's report thereon) which is included, either by law, regulation or custom, in a document, containing audited financial statements, that is provided to owners on the same terms, and at the same time, as the financial statements.
 - (b) Material inconsistency – A statement contained in other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

- (c) Misstatement of fact – A statement contained in other information that is unrelated to matters appearing in the audited financial statements which is incorrectly stated or presented.

Requirements

Reading Other Information

6. The auditor shall read the other information to identify material inconsistencies with the audited financial statements.
7. The auditor shall make appropriate arrangements with the entity to obtain the other information on a timely basis. If it is not possible to obtain all, or some of, the other information prior to the date of the auditor's report, the auditor shall read such other information at the earliest practicable opportunity thereafter. (Ref: Para. A8)

Material Inconsistencies

8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be amended.
9. If an amendment is necessary to the audited financial statements and the entity refuses to make the amendment, the auditor shall express either a qualified or adverse opinion on those financial statements.
10. If an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency or take other appropriate action. (Ref: Para. A9-A10)

Misstatements of Fact

11. While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent misstatement of fact. If the auditor becomes aware of such a misstatement of fact, the auditor shall discuss the matter with the entity's management. (Ref: Para. A11)
12. When, following such discussions, the auditor still considers that there is an apparent misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.
13. If the auditor concludes that there is a misstatement of fact in the other information which management refuses to correct, the auditor shall take further appropriate action. (Ref: Para. A12)

Availability of Other Information After the Date of the Auditor's Report

14. When reading other information after the date of the auditor's report, the auditor may identify a material inconsistency or become aware of an apparent misstatement of fact in the other information. In such circumstances the auditor shall determine whether the audited financial statements or the other information needs to be amended.

15. When revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in ISA 560, "Subsequent Events."
16. When revision of the other information is necessary and the entity agrees to make the revision, the auditor shall carry out the audit procedures necessary under the circumstances. (Ref: Para A13)
17. When revision of the other information is necessary but management refuses to make the revision, the auditor shall take further appropriate action. (Ref: Para A14)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para 1-2)

- A1. The objective and scope of an audit of financial statements are formulated on the premise that the auditor's responsibility is restricted to information identified in the auditor's report as having been audited. Accordingly, the scope of the auditor's opinion does not cover the other information and the auditor has no specific responsibility for determining whether or not the other information is properly stated.
- A2. The auditor may consider if the form of presentation allows identifying the page numbers on which the audited financial statements are presented. This helps readers to differentiate the audited financial statements from the other information in the document that is not covered by the auditor's opinion.
- A3. Other information may comprise, for example:
 - A report by management or those charged with governance on operations.
 - Financial summaries or highlights.
 - Employment data.
 - Planned capital expenditures.
 - Financial ratios.
 - Names of officers and directors.
 - Selected quarterly data.
- A4. For purposes of the ISAs, the definition of other information does not encompass, for example:
 - The press release or other transmittal memorandum, such as a covering letter, accompanying the document containing audited financial statements.
 - Documents that accompany the document containing audited financial statements when sent to shareholders, owners where the entity is not a company, holders of debt, and bankers.
 - Information contained in analyst briefings.
 - Information contained on the entity's web site.

- A5. The auditor may have further responsibilities beyond the scope of an audit conducted in accordance with ISAs, and in particular beyond the scope of this ISA. Some jurisdictions may require the auditor to apply specific procedures to certain of the other information, for example, required supplementary data and interim financial information. When there is such an obligation the auditor's responsibilities are determined by the nature of the engagement and by law and regulation and professional standards. If such other information is omitted or contains deficiencies, the auditor may be required by law or regulation to refer to the matter in the auditor's report. ISA 700 (Revised), "The Independent Auditor's Report on General Purpose Financial Statements" provides relevant requirements and guidance on the form and content of the auditor's report.

Considerations Specific to Smaller Entities

- A6. Unless required by law or regulation, smaller entities may not issue documents containing audited financial statements. However, an example of such a document would be where a legal requirement exists for a report by the directors. Examples of other information that may be included in a document containing the audited financial statements of a smaller entity are:
- A detailed income statement.
 - A management report to the entity's bankers.

Considerations Specific to Public Sector Entities

- A7. In the absence of specific auditing requirements in relation to other information, applicable to a public sector entity, the broad principles contained in this ISA are applicable. In the public sector the auditor may have a statutory or contractual obligation to report specifically on other information. The procedures described in this ISA are not designed to satisfy legislative or other audit requirements related to, for example, the expression of an opinion on the reliability of performance indicators and other information contained in the annual report. It would be inappropriate, therefore, to apply this ISA in circumstances where the auditor does have an obligation to express an opinion on such information.

Reading Other Information (Ref: Para 6-7)

- A8. Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and apparent misstatements of fact with management on a timely basis. An agreement with the entity as to when the other information will be available may be helpful.

Material Inconsistencies (Ref: Para 8-10)

- A9. When the entity refuses to amend the other information the action to be taken, such as not issuing the auditor's report or withdrawing from the engagement, will depend upon the particular circumstances and the nature and significance of the material inconsistency. The auditor may base the decision, on further action to be taken, on advice from the auditor's legal counsel.

Considerations Specific to Public Sector Entities

- A10. In the public sector, withdrawal from the engagement or withholding the issue of the auditor's report may not be options. This is particularly the case for national audit agencies that are appointed to audit the financial statements of public sector entities. In such cases the auditor may, as an alternative action, describe the material inconsistency in an Other Matter(s) paragraph in the auditor's report.

Misstatements of Fact (Ref: Para 11-13)

- A11. When discussing an apparent misstatement of fact with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and may conclude that valid differences of judgment or opinion exist.
- A12. When the auditor concludes that there is a misstatement of fact that management refuses to correct the actions taken could include notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

Availability of Other Information After the Date of the Auditor's Report (Ref: Para 14-17)

- A13. The auditor's responsibility with respect to facts discovered after the date of the auditor's report that give rise to a revision of the other information may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information are informed of the revision.
- A14. When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.