

## Agenda Item 5-D

Paragraph of Extant ISA 720	Redrafted ISA 720
<a href="#">New Text</a>	<p style="text-align: center;"><b><u>READING</u> OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS</b></p> <p><b>Introduction</b></p> <p><b>Scope of this ISA</b></p>
1.1    6.3	<p>1. <del>The purpose of this International Standard on Auditing (ISA) deals withis to establish standards and provide guidance on the auditor's responsibility to readconsideration of other information, on which the auditor has no obligation to report, in documents containing auditedwhen issuing a report on the financial statements.</del> However, <del>t</del>The auditor <u>reads theneeds to give consideration to such</u> other information <del>when issuing a report on the financial statements,</del> as the credibility of the <u>audited</u> financial statements may be undermined by inconsistencies which may exist between the audited financial statements and other information.</p>
New text  1.2	<p>2. This ISA <u>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 applies when an annual reports is involved, however, it.</u> This ISA may also <u>be applicably, adapted an necessary in the circumstances,</u> to other documents <u>containing audited financial statements;</u> such as those used in securities offerings.</p>
	<b>Effective Date</b>
New text	<p>3. <u>This ISA is effective for audits of financial statements for periods beginning on or after [Date to be inserted].</u></p>
	<b>Objective</b>
New text	<p>4. <u>The objective of the auditor is to avoid association with misleading other information through:</u></p> <ul style="list-style-type: none"> <li><u>a. Reading other information and considering whether it is inconsistent with the audited financial statements;</u></li> <li><u>b. Responding appropriately to identified material inconsistencies with the audited financial statements; and</u></li> <li><u>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.</u></li> </ul>
	<b>Definitions</b>
4.4 4.1  4.2	<p>5. <u>For purposes of the ISAs the following terms have the meanings attributed below:</u></p> <p>(a) <u>Other information</u> – <del>For the purpose of this ISA, such other f</del>Financial and non-financial information <del>is called "other information". An entity ordinarily issues on an annual basis a document which includes its (other than the audited financial statements or together with the auditor's report thereon).</del> <u>This document is frequently referred to as the "annual report". In issuing such a document, an entity may also which is included, either by law, regulation or custom, other</u></p>

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4.3  New text  3.1 3.2  15	<p><del>financial and non-financial information, 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.</del></p> <p>(b) <u>Material inconsistency</u> – A <u>statement contained in other information that “material inconsistency” exists when other information</u> 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.</p> <p>(c) <u>Misstatement of fact</u> – <del>For the purposes of this ISA, a “material misstatement of fact” in other information exists when such</del> A <u>statement contained in other</u> information <u>that is, not unrelated</u> to matters appearing in the audited financial statements; <u>which</u> is incorrectly stated or presented.</p>
	<b>Requirements</b>
	<b>Reading other information</b>
2	6. The auditor <del>shall</del> <u>ould</u> read the other information to identify material inconsistencies with the audited financial statements.
9.2 9.1  19	7. The auditor <del>shall therefore needs to</del> make appropriate arrangements with the entity to obtain <del>the other information on asuch information prior to the date of the auditors report. In order that an auditor can consider other information included in the annual report,</del> timely <del>basis</del> <u>access to such information will be required. If it is not possible to obtain all or some of</u> <del>When all</del> the other information <del>is not available to the auditor</del> prior to the date of the auditor’s report, the auditor <del>shall</del> <u>ould</u> read <del>such</del> <u>the</u> other information at the earliest <del>practicable possible</del> opportunity thereafter <del>to identify material inconsistencies.</del>
	<b>Material Inconsistencies</b>
11	8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor <del>shall</del> <u>ould</u> determine whether the audited financial statements or the other information needs to be amended.
12	9. If an amendment is necessary <del>to</del> <u>in</u> the audited financial statements and the entity refuses to make the amendment, the auditor <del>shall</del> <u>ould</u> express <u>either</u> a qualified or adverse opinion <u>on those financial statements.</u>
13.1	10. If an amendment is necessary <del>to</del> <u>in</u> the other information and the entity refuses to make the amendment, the auditor <del>shall</del> <u>ould consider</u> <del>include</del> <u>ing</u> in the auditor’s report an <del>Other emphasis of m</del> <u>Matter(s)</u> paragraph describing the material inconsistency or <del>take</del> <u>ing</u> other <u>appropriate</u> actions.
	<b>Misstatements of Fact</b>
14  16.1	11. While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent <u>material</u> misstatement of fact. If the auditor becomes aware <u>of such that the other information appears to include</u> a <del>material</del> misstatement of fact, the auditor <del>shall</del> <u>ould</u> discuss the matter with the entity’s management.
17	12. When, <u>following such discussions,</u> the auditor still considers that there is an apparent misstatement of fact, the auditor <del>shall</del> <u>ould</u> request management to consult with a qualified third party, such as the entity’s legal counsel and <u>the auditor</u> <del>shall</del> <u>ould</u> consider the advice received.

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18.1	13. If the auditor concludes that there is a <del>material</del> misstatement of fact in the other information which management refuses to correct, the auditor shall <del>consider</del> <del>take</del> <del>ing</del> further appropriate action.
	<b>Availability of Other Information After the Date of the Auditor's Report</b>
20	14. <del>When</del> <del>if, on</del> reading <del>the</del> other information <u>after the date of the auditor's report</u> , the auditor <del>may</del> <del>identify</del> <del>ies</del> a material inconsistency or becomes aware of an apparent <del>material</del> misstatement of fact <u>in the other information</u> . <u>In such circumstances</u> the auditor <del>shall</del> <del>would</del> determine whether the audited financial statements or the other information needs <u>to be amended</u> <del>revision</del> .
21	15. When revision of the audited financial statements is <del>necessary</del> <del>appropriate</del> , <u>the auditor shall follow the relevant requirements</u> <del>the guidance</del> in ISA 560, "Subsequent Events" <del>would be followed</del> .
22.1	16. When revision of the other information is necessary and the entity agrees to make the revision, the auditor <del>shall</del> <del>would</del> carry out the audit procedures necessary under the circumstances.
23.1	17. When revision of the other information is necessary but management refuses to make the revision, the auditor shall <del>consider</del> <del>take</del> <del>ing</del> further appropriate action.
	<b>Application and Other Explanatory Material</b>
	<b>Scope of this ISA</b>
10	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 <u>as having been audited</u> . Accordingly, the <u>scope of the auditor's opinion does not cover the other information and the</u> auditor has no specific responsibility <del>for</del> <del>to</del> <u>determine whether or not the</u> <del>that</del> other information is properly stated.
New text (derived from para 23 of ISA 700)	<u>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.</u>
5	A3 <del>Examples of o</del> Other information <u>may comprise, for example:</u> <del>include</del> <ul style="list-style-type: none"> <li><u>a report by management or those charged with governance on operations,</u></li> <li><u>financial summaries or highlights,</u></li> <li><u>employment data,</u></li> <li><u>planned capital expenditures,</u></li> <li><u>financial ratios,</u></li> <li><u>names of officers and directors</u> <del>and</del></li> <li><u>selected quarterly data.</u></li> </ul>
<u>New text</u>	<u>A4 For purposes of the ISAs the definition of other information does not encompass, for example:</u> <ul style="list-style-type: none"> <li><u>The press release or other transmittal memorandum, such as a covering letter, accompanying the document containing audited financial statements.</u></li> <li><u>Documents that accompany the document containing audited statements when</u></li> </ul>

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	<p><u>sent to shareholders, owners where the entity is not a company, holders of debt and bankers.</u></p> <ul style="list-style-type: none"> <li>• <u>Information contained in analyst briefings</u></li> <li>• <u>Information contained on the entity's web site.</u></li> </ul>	
New text  7.1  8.1  7.2  New text	A5	<p><u>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.</u> Some jurisdictions <u>may</u> 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 <u>such</u> an obligation <del>to report specifically on other information,</del> the auditor's responsibilities are determined by the nature of the engagement and by <u>law and regulation</u> <del>local legislation</del> and professional standards. If such other information is omitted or contains deficiencies, the auditor may be required <u>by law or regulation</u> to refer to the matter in the auditor's report. <u>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.</u></p>
	<i>Consideration Specific to Smaller Entities</i>	
New text  IAPS 1005 paragraph 106	A6	<p><u>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. The auditor reads the other information to identify material inconsistencies with the audited financial statements.</u> Examples of "other information" <u>that may be often</u> included <u>in a document containing with the audited</u> financial statements of a smaller <u>er</u> entity are:</p> <ul style="list-style-type: none"> <li>• <u>A <del>the</del> detailed income and expenditure statement, that is often attached with audited financial statements for taxation purposes, and the</u></li> <li>• <u>A management report to the entity's bankers..</u></li> </ul>
	<i>Considerations Specific to Public Sector Entities</i>	
Last sentence relocated    Psp	A7	<p><u>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.</u> <del>This ISA is applicable in the context of the audit of financial statements.</del> In the public castor, the auditor may <del>often</del> have a statutory or contractual obligation to report specifically on other information. <u>As paragraph 8 of the procedures described in this ISA are not designed indicates, the procedures stated in this ISA would not be adequate</u> 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, <u>therefore,</u> to apply this ISA in circumstances where the auditor does have an obligation to express an opinion on such information. <del>In the absence of specific auditing requirements in relation to "other information," the broad principles contained in this ISA are applicable.</del></p>
	<b>Reading Other Information</b>	
9.3 9.4	A8	<p><del>In certain circumstances all the other information may not be available prior to such date. In these circumstances, the auditor would follow the guidance in paragraphs 20-23.</del> <u>Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies</u></p>

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New text		<u>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.</u>
	<b>Material Inconsistencies</b>	
13.2	A9	<u>When the entity refuses to amend the other information</u> <del>The actions to be taken,</del> 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 <u>material</u> inconsistency. The auditor <u>may base the decision on further action to be taken, on</u> <del>would also consider obtaining legal advice from the auditor's legal counsel as to further action.</del>
13.3		
	<i>Considerations Specific to Public Sector Entities</i>	
New text	A10	<u>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.</u>
	<b>Misstatements of Fact</b>	
16.2	A11	When discussing <u>an apparent misstatement of fact</u> <del>the matter</del> with the entity's management, the auditor may not be able to evaluate the validity of the other information and management responses to the auditor's inquiries, and <u>may conclude that</u> <del>would need to consider whether</del> valid differences of judgment or opinion exist.
18.2	A12	<u>When the auditor concludes that there is a misstatement of fact that management refuses to correct the actions</u> <del>The actions taken could include such steps as</del> notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.
	<b>Availability of Other Information After the Date of the Auditor's Report</b>	
22	A13.	<u>The auditor's responsibility with respect to facts discovered after the date of the auditor's report that give rise to a</u> <del>When a revision of the other information is necessary and the entity agrees to make the revision, the auditor would carry out the audit procedures necessary under the circumstances. The audit procedures</del> 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.
23.2	A14	<u>When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further</u> <del>The actions by the auditor may taken could include such steps as</del> notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

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