

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

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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 in documents containing audited financial statements. (Ref: Para. A1–A6)

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after [Date to be inserted].

Objective

3. The objective of the auditor is to seek to ensure that the credibility of the audited financial statements is not undermined by material inconsistencies which may exist between the audited financial statements and the other information or by material misstatements of fact in the other information.

Definitions

4. For purposes of the ISAs the following terms have the meanings attributed below:
 - (a) Material inconsistency – Exists when statements contained in other information contradict information contained in the audited financial statements such that doubt is raised about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
 - (b) Material misstatement of fact – Exists when statements contained in other information which are unrelated to matters appearing in the audited financial statements are incorrectly stated or presented.
 - (c) Other information – Financial or 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.

Requirements

Reading other information

5. When other information is included in a document containing audited financial statements, the auditor shall read such other information before finalizing the auditor's report. (Ref: Para. A7)
6. If other information is to be included in a document containing audited financial statements subsequent to the date of the auditor's report, the auditor shall read such other information at the earliest possible opportunity thereafter.
7. If, as a result of reading the other information, the auditor identifies a material inconsistency or an apparent material misstatement of fact, the auditor shall determine whether the financial statements or the other information need revision and shall discuss the matter with the entity's management and, where appropriate, those charged with governance. (Ref: Para. A8 – A10)

Reading Other Information Before the Date of the Auditor's Report

8. When reading other information before the date of the auditor's report, the auditor may conclude that there is a material inconsistency or a material misstatement of fact in the other information. If following discussion with management and, where appropriate, those charged with governance, the entity refuses to make the necessary correction, the auditor shall:
- (a) Where an amendment is necessary to the audited financial statements, express either a qualified or an adverse opinion on those financial statements; or
 - (b) Where an amendment is necessary to the other information, include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency or take other appropriate action. (Ref: Para A11)

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

9. When reading other information after the date of the auditor's report, the auditor may conclude that there is a material inconsistency or a material misstatement of fact in the other information. If following discussion with management and, where appropriate those charged with governance, the entity agrees to make the necessary correction the auditor shall:
- (a) Where an amendment is necessary to the audited financial statements follow the relevant requirements of ISA 560 "Subsequent Events"; or
 - (b) Where an amendment is necessary to the other information carry out the procedures necessary under the circumstances. (Ref: Para. A12)
10. When reading other information after the date of the auditor's report, the auditor may conclude that there is a material inconsistency or a material misstatement of fact in the other information. If following discussion with management and, where appropriate those charged with governance, the entity refuses to make the necessary correction, the auditor shall:
- (a) Where an amendment is necessary to the audited financial statements follow the relevant requirements of ISA 560, "Subsequent Events"; or
 - (b) Where an amendment is necessary to the other information take further appropriate action. (Ref: Para. A13)

Application and Other Explanatory Material**Scope of this ISA** (Ref: Para 1)

- 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. Accordingly, the auditor has no specific responsibility to determine that other information is properly stated.
- A2. An entity may issue on an annual basis a document which includes its audited financial statements together with the auditor's report thereon. This document is frequently referred to as the entity's annual report. Annual reports often include other information such as:
- 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.

This ISA applies when an entity issues an annual report, and in other cases where an entity issues a document (including electronic documents) containing the audited financial statements and other information.

- A3. 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. 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 "The Auditor's Report on Financial Statements" provides relevant requirements and guidance on the form and content of the auditor's report.
- A4. In certain circumstances, the auditor has a statutory or contractual obligation to report specifically on other 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.

Considerations Specific to Smaller Entities

- A5. Unless required by law or regulation, smaller entities do not ordinarily issue annual reports or similar documents. Examples of other information often included with the 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

- A6. 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 5 - 7)

- A7. Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and material 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.
- A8. The auditor may identify a material misstatement of fact because of relevant knowledge acquired during the audit. Management may, for example, be required by law or regulation to provide a statement on internal control as part of the other information that describes the entity's internal control over financial reporting and indicates management's view as to its adequacy and operating effectiveness. A material misstatement of fact may exist in such a statement if management has, for example, asserted that internal control has operated effectively throughout the period covered by the financial statements and this is inconsistent with the auditor's knowledge of material weaknesses identified during the audit.
- A9. When discussing apparent material misstatements of fact with 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.
- A10. If, following discussion, the auditor still considers that there is an apparent misstatement of fact, the auditor may recommend that management consult an appropriate expert, such as the entity's legal counsel, and to consider the advice received.

Reading Other Information Before the Date of the Auditor's Report (Ref: Para 8)

- A11. Dependent upon the particular circumstances and the nature and significance of the misstatement of fact or inconsistency it may be appropriate to:
 - a) Notify those charged with governance (unless all of those charged with governance are involved in managing the entity) in writing of the auditor's concern regarding the need to revise the other information; or
 - b) Withhold the issue of the auditor's report; or
 - c) To withdraw from the engagement.

The auditor may base the decision, on the further action to be taken, on advice from the auditor's lawyer.

Reading Other Information After the Date of the Auditor's Report (Ref: Para 9 - 10)

- A12. 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.
- A13. 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 (unless all of those charged with governance are involved in managing the entity) in writing of the auditor's concern regarding the need to revise the other information.
- Obtaining advice from the auditor's lawyer as to the possibility of withdrawing the auditor's report or other actions that may be open to the auditor.