

**The Auditor's Responsibilities Relating to Other Information in Documents  
Containing or Accompanying Audited Financial Statements and the Auditor's  
Report Thereon—  
Issues and IAASB Task Force Proposals**

**Significant Issues****A. Scope**

1. The March 2011 version of draft revised ISA 720<sup>1</sup> included a proposed description of key features of documents that are intended to be within the scope of proposed revised ISA 720 as follows:
  - (a) *Nature and purpose.* Contains or accompanies the audited financial statements and the auditor's report thereon for purposes of providing further commentary aimed at enhancing the user's understanding of:
    - (i) The audited financial statements; or
    - (ii) The entity, and its state of affairs;
  - (b) *Timing of availability.* Intended to be made available along with the initial release, typically annually, of the audited financial statements and the auditor's report thereon; and
  - (c) *Intended users.* Same as the intended users of the audited financial statements.
2. The IAASB expressed support for such an approach to describe documents that are intended to be in the scope of the standard. However, it noted that there are examples at the national level, of documents that should be within the scope of proposed revised ISA 720 but which may appear not to display all of the key features described above (an example was given of documents similar to Management Discussions & Analysis that may be issued prior to the audited financial statements) or on the contrary, of documents which may appear to display all of the key features but should not be in the scope of proposed revised 720. The Task Force was asked to consider revisions to the key features as appropriate in light of such cases.
3. Based on the comments received from the IAASB and further survey work undertaken by the Task Force,<sup>2</sup> two areas of the above description of scope have been highlighted as requiring further attention:

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<sup>1</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statement and the Auditor's Report Thereon*

<sup>2</sup> In March 2011, the IAASB supported the Task Force's recommendation to undertake an informal survey of a sample of stakeholders to ascertain whether there is consistent reading of draft revised ISA 720 in the context of the documents issued at the national level. The Task Force acknowledges the assistance of staff of the International Organization of Supreme Audit Institutions (INTOSAI) with the survey of the supreme audit institutions. Generally, results of the survey pointed to similar areas raised by the IAASB members in March 2011 as needing further attention. The Task Force has taken these findings into account in revising the proposed key features description.

- (a) *Nature and Purpose.* Feedback indicates that it remains unclear which “accompanying documents” are intended to be scoped in or out of proposed revised ISA 720.
  - (b) *Timing of Availability.* It was raised with the Task Force that some accompanying documents that are intended to be scoped into proposed revised ISA 720 may be issued slightly after or, on the contrary, slightly in advance of the issuance of the audited financial statements.
4. *Preliminary Announcements and Securities Offerings.* In addition, feedback suggested that there remains the need to clarify the intent of proposed revised ISA 720 with regard to securities offering documents and other prospectuses and preliminary announcements.

#### *Nature and Purpose*

5. In its previous discussions, the IAASB supported the notion of updating extant ISA 720 to reflect its application in practice to documents other than annual reports. In particular, the IAASB recognized that other information that may affect the credibility of the audited financial statements and the auditor's report thereon may be located separately from the audited financial statements and the auditor's report thereon in an *accompanying* document. Accordingly, it agreed the scope of ISA 720 should give recognition to such documents.
6. Feedback received indicated that in the minds of readers, there continues to be ambiguity as to which “accompanying documents” are intended to be within or outside of the scope of proposed revised ISA 720. In particular, at the national level, there are a number of examples of documents accompanying audited financial statements and the auditor's report thereon that may appear to display all of the key features proposed for documents that are intended to be within the scope of proposed revised ISA 720. However, due to the nature of such documents and the circumstances under which they are issued, it raises doubt as to whether they indeed *should* be within the scope of the ISA (for example, sustainability reports).
7. Accordingly, the Task Force believes that it is essential to revisit the question of intent around “accompanying” documents and where such a boundary should be drawn (that is, which accompanying documents are intended to be in and out of the scope of proposed revised ISA 720), and how that should be articulated.

#### *Proposed Options for the IAASB's Consideration*

8. The Task Force continues to believe that it is appropriate for proposed revised ISA 720 to be expanded to address documents that *accompany* audited financial statements and the auditor's report thereon. This is because other information included in documents like annual reports that include the audited financial statements is, in some cases, presented to intended users separately in a document that does not contain the audited financial statements but instead accompanies them.
9. However, because an entity may prepare a wide range of documents that may be released at or around the same time as the audited financial statements and the auditor's report thereon,

it raises the question of whether all documents that accompany the audited financial statements should be in or out of the scope of proposed revised ISA 720 or whether certain documents should be scoped out depending on their content. Accordingly, it is essential to provide auditors with clear directions for making such determinations when performing the procedures required under proposed revised ISA 720.

10. The Task Force presents two options for the IAASB's consideration as shown below:

OPTION A	OPTION B
<p>8(a)(i). <i>Nature and purpose</i>. Either:</p> <ul style="list-style-type: none"> <li>a. Contains audited financial statements and the auditor's report thereon; or</li> <li>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and: <ul style="list-style-type: none"> <li>i. Has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment; and</li> <li>ii. Its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit. <b>[See paragraph 8(a)(i) in Agenda Item 5-B.]</b></li> </ul> </li> </ul>	<p>8(a)(i). <i>Nature and purpose</i>. Either:</p> <ul style="list-style-type: none"> <li>a. Contains audited financial statements and the auditor's report thereon; or</li> <li>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process. <b>[See paragraph 8(a)(i) in Agenda Item 5-B.]</b></li> </ul>

11. For convenience, a comparison of the proposed wordings (including application and explanatory material) under Option A and Option B is presented in the Appendix to this Issues Paper.
12. Broadly the following are the key aspects that differentiate Option A from Option B:
- (a) Option A has a broader scope. While expanding the scope of proposed revised ISA 720 to include documents that *accompany* the financial statements and auditor's report will likely lead to an increase in the number of documents to be read and considered by auditors (and therefore necessitating an increase in the auditor's work effort),<sup>3</sup> the Task Force believes that it is possible that an even larger number of documents will be included under Option A (in comparison to Option B).

<sup>3</sup> The auditor's responsibility under extant ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, extends solely to documents that contain audited financial statements; this refers specifically to annual reports.

- (b) Under Option A, the subject matter(s) of the accompanying document is key to determining whether or not the document is intended to be within the scope of proposed revised ISA 720. The Task Force anticipates that, under this option, greater judgment would be required to be exercised by the auditor. A consequence of this is that in implementing the standard, inconsistencies in practice may be observed.
13. Under both options, documents for which the auditor is not required to have knowledge of the subject matter(s) for purposes of the audit are excluded from the scope of proposed revised ISA 720. For example, documents that are intended to report on specific subject matters such as diversity and equal opportunity, product responsibility, labor practices and working conditions, and human rights are excluded.
  14. Favored by a slight majority of Task Force members, Option A supports the notion that the auditor's knowledge acquired during the audit typically spans across a wide range of subject matters. On this basis, those in favor of Option A believe it is in the public interest for auditors to read and consider such documents given that users will associate auditors with them because they accompany the audited financial statements. Further, these Task Force members are of the view that auditor involvement would result in improvements to the preparation process and to the overall quality of these documents.
  15. Accordingly, Option A proposes that the scope of proposed revised ISA 720 includes documents that address broader subject matters, for example, depending on the circumstance, sustainability reports. However, it is recognized that this will result in an increase in the work effort required of the auditor and may potentially present challenges in practice (see paragraph 12(b) of this Issues Paper).
  16. Option B circumscribes the auditor's responsibility to documents that are prepared to provide commentary on or to enhance users' understanding of the audited financial statements and the financial reporting process. Task Force members in favor of this Option believe that it is appropriate to focus the scope of proposed ISA 720 on such documents because they are directly related to the purpose of the financial statement audit.
  17. Option B supports the notion that clarity in the scope of proposed revised ISA 720 and certainty in the minds of auditors are critical to the practical application of the standard. Focusing the ISA on such documents will lead to greater consistency as to the documents that are determined by auditors to be within and outside the scope of proposed revised ISA 720, and thus reduce the risk of inconsistent application of the standard in practice.
  18. Those in support of Option B acknowledge that auditors may obtain some understanding of the broader subject matters contemplated by Option A for the purposes of the audit and that often such subject matters are covered in annual reports or management commentary. However, the concern is that the documents contemplated under Option A cover such broader subject matter(s) at a much greater level of granularity or detail than is necessary for the purposes of the financial statement audit. The nature of such information would also not typically be considered during the planning of the audit. Therefore, the auditor could not reasonably have been expected to have acquired sufficient knowledge during the audit (under the extant scope of an ISAs-compliant audit) to be able to meaningfully meet the objectives of proposed revised ISA 720. Additionally, it is feared that some users may take

a higher level of assurance from auditor involvement with such documents than is intended thus widening the expectation gap.

19. This concern leads to the broader question of whether the level of “comfort” that may be sought with such broader scope documents is better provided through a separate engagement or possibly an extension to the scope of the audit. These considerations are beyond the scope of this project to revise ISA 720.
20. Separately, the Task Force noted the possibility that disclosing in the auditor's report the documents read and considered by the auditor under proposed revised ISA 720 may more effectively address the risk that auditors may inadvertently be associated with documents that accompany the audited financial statements that are not intended to be within the scope of the ISA. This issue it is being considered by the IAASB Working Group on auditor reporting.
21. The Task Force recognizes that there are merits to both Option A and Option B. However, for determining the preferred option that is in the best interest of the public, the underlying challenge lies in the difference in philosophy regarding the role of ISA 720. The arguments for both schools of thoughts are highlighted above. In making a decision, it is important to strike the right balance between the desire for the auditor to value-add to the other information as part of the audit process, the possible inadvertent effect on the expectation gap (some users may assume a degree of reliance that is not intended) and the likely impact on practice. Accordingly, the Task Force felt that a discussion with the Board is necessary in order to determine which arguments should weigh most heavily in the decision on the scope of proposed revised ISA 720.

#### **Matters for IAASB's Consideration**

1. The IAASB is asked whether there are any other matters that have not been considered by the Task Force but which should be taken into account in determining the scope of proposed revised ISA 720.
2. Subject to its discussion, the IAASB is asked to agree on an option for the scope of proposed revised ISA 720.
  - Regardless of the option selected, does the IAASB agree that the Explanatory Memorandum to the Exposure Draft (ED) should include a discussion of the alternative option considered by the Board and the reasons why it is a less preferred option?
  - Does the IAASB agree that a question should be included in the ED to ask respondents for their view on whether the scope of proposed revised ISA 720 has been clearly defined including whether it has been appropriately circumscribed?

22. Irrespective of the IAASB's decision the Task Force recommends the following under either Option A or Option B. First, proposed revised ISA 720 should provide commonly recognized examples of (i) accompanying documents that are intended to be in the scope of proposed revised ISA 720; and (ii) subject matters addressed in accompanying documents

that are intended to be out of the scope of proposed revised ISA 720. [See paragraphs A10–A10b in Agenda Item 5-B.]

23. Secondly, consequential amendments should be made to ISA 260<sup>4</sup> to encourage the auditor, to communicate to those charged with governance information on the documents for which the auditor has responsibilities under revised ISA 720 and the timing at which it has been agreed with management that such documents will be made available to the auditor. The Task Force felt this is of importance particularly under Option A because this option involves a greater expansion in scope from the extant ISA. [See paragraph A13 in Agenda Item 5-D which presents consequential amendments to ISA 260 in mark-ups.]

#### Matters for IAASB's Consideration

The IAASB is asked whether it agrees with the Task Force's proposals described in paragraphs 22–23 to:

3. Provide examples of accompanying documents that are intended to be within the scope of proposed revised ISA 720 as well as subject matters commonly addressed in accompanying documents that are intended to be out-of-scope; and
4. Make consequential amendments to ISA 260 as suggested.

#### Timing of Availability

24. In March 2011 it was raised that, in some cases, documents accompanying audited financial statements and the auditor's report thereon that are intended to be within the scope of proposed revised ISA 720 may be issued slightly after or, on the contrary, slightly in advance of the issuance of the audited financial statements.
25. To accommodate such circumstances, the Task Force recommends revising the “timing of availability” characteristic in the key features description to specify that documents intended to be within the scope of proposed revised ISA 720 may be issued at *about the same time* as the initial release of the audited financial statements and auditor's report thereon (the March 2011 version of this characteristic only specified “*along with*”). [See paragraphs 8(a)(ii) in Agenda Item 5-B.]

#### Matter for IAASB's Consideration

5. The IAASB is asked whether it agrees with the Task Force's proposal described in paragraph 25 to revise the “timing of availability” characteristic in the key features description to include “*at about the same time*.”

#### Preliminary Announcements and Securities Offerings

26. The Task Force believes that the proposed description and explanatory guidance are sufficient for auditors to determine that securities offering documents and other

<sup>4</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 15 requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit.

prospectuses and preliminary announcements are intended to be outside the scope of proposed revised ISA 720. However, comments received from the IAASB in March 2011 and respondents to the survey indicate that there might still be some ambiguity and therefore further clarification is needed.

27. The Task Force proposes the following:

- (a) Stating explicitly in proposed revised ISA 720 that the ISA is not intended to apply to preliminary announcements of financial information and securities offering documents or other prospectuses. **[See paragraph 5 in Agenda Item 5-B.]**
- (b) Clarifying that, for purpose of proposed revised ISA 720, preliminary announcements of financial information are not within the scope of this ISA because, due to their nature, preliminary announcements do not contain audited financial statements, the auditor's report thereon, and other information as defined in the ISA.<sup>5</sup> **[See paragraph A1 in Agenda Item 5-B.]**

#### **Matter for IAASB's Consideration**

- 6. The IAASB is asked whether it agrees with the Task Force's proposals described in paragraph 27 to include further guidance to clarify that securities offering documents and other prospectuses and preliminary announcements are intended to be outside the scope of proposed revised ISA 720.

#### *Other Matters*

- 28. In March 2011, questions raised by the IAASB and Representatives of the IAASB Consultative Advisory Group (CAG) indicate that there might still be some ambiguity regarding the matter of eXtensible Business Reporting Language (XBRL) in the context of the auditor's responsibility under proposed revised ISA 720.
- 29. The Task Force proposes to clarify draft revised ISA 720 by including guidance to explain that XBRL tagged data does not represent "other information" as contemplated in the ISA, because it is simply a machine-readable rendering of the data within the financial statements, rather than "other information," as defined in proposed revised ISA 720. **[See paragraph A7 in Agenda Item 5-B.]**

#### **Matter for IAASB's Consideration**

- 7. The IAASB is asked whether it agrees with the Task Force's proposal described in paragraph 29 to include guidance relating to XBRL in the context of the auditor's responsibility under proposed revised ISA 720.

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<sup>5</sup> See paragraph 8(a) of Agenda Item 5-B.

## B. Structure

30. In March 2011, the IAASB expressed broad support for the proposed structure of revised ISA 720 that organizes the ISA into two main topic areas: (a) matters that relate to the audited financial statements; and (b) matters that relate to other information.
31. However, the IAASB questioned the appropriateness of placing the proposed description of key features of documents that are intended to be within the scope of proposed revised ISA 720 in the scope section. It noted in particular that the ISAs do not generally reach that level of specificity within their scope sections. As such, placing the proposed description in the scope of proposed revised ISA 720 could distract auditors from the key messages contained therein. The Task Force was asked to consider a more appropriate placement for the description. Some suggested that it may consider, for example, placement in the definition section.

### *Task Force Recommendations*

32. The Task Force proposes the following:
- (a) *Incorporating the proposed description of key features of documents within the scope of proposed revised ISA 720 in the definition of "Other Information."* The Task Force believes that it is appropriate to link the two concepts ("documents that are in scope" and "other information") because doing so would better illustrate the interrelationship of these two concepts. **[See paragraph 8(a) in Agenda Item 5-B.]**
  - (b) *Reorganizing materials that provide context.* The Task Force proposes to place guidance that explains the nature of other information, and the auditor's objectives with respect to such information after the scope section and under the heading "The Nature of Other Information." The Task Force believes that doing so also has the advantage of achieving a clear and streamlined scope section. **[See paragraphs 4–5 in Agenda Item 5-B.]**

### **Matters for IAASB's Consideration**

8. The IAASB is asked whether it agrees with the Task Force's proposals described in paragraph 32 to:
- Incorporate the proposed description of key features of documents within the scope of revised ISA 720 in the definition of "Other Information;" and
  - Reorganize contextual materials in the ISA.

## C. Reading and Considering Other Information

33. The March 2011 version of draft revised ISA 720 included the following requirement:

If financial data in the other information is extracted from or capable of being reconciled to the audited financial statements, the auditor shall perform procedures sufficient to determine whether it is necessary to revise the financial data in the other information or the corresponding items in the audited financial statements.



34. A few members of the IAASB and the SMP Committee raised concerns about this proposal. Some felt that the requirement seemed overly onerous if read to require the auditor to perform procedures to reconcile *all* the financial data. Other felt that greater specificity in the requirement would help to avoid misinterpretation. Similar comments were also made regarding the procedures that the auditor is expected to perform.

*Task Force Recommendations*

35. The Task Force proposes to require the auditor, when considering financial data in the other information that is extracted from or capable of being reconciled to the audited financial statements, to test the extraction or reconciliation of those items as the auditor considers appropriate in the circumstances to determine the consistency of such items with the audited financial statements. **[See paragraph 12 in Agenda Item 5-B.]**
36. Further, the Task Force proposes application and explanatory material to assist the auditor:
- (a) Providing guidance to explain that the purpose of the auditor's procedures relating to such financial data is to determine the consistency of such data with the audited financial statements. **[See paragraph A20 in Agenda Item 5-B.]**
  - (b) Providing examples of procedures the auditor may perform in these circumstances. **[See paragraph A20 in Agenda Item 5-B.]**
  - (c) Providing guidance to explain that the auditor's determination of the items that are appropriate in the circumstances to be reconciled or agreed to the audited financial statements is a matter of professional judgment. The auditor's judgment in this regard is made with consideration for the likely effect on the intended users of an inconsistency in the financial data on the credibility of the audited financial statements. **[See paragraph A21 in Agenda Item 5-B.]**

**Matters for IAASB's Consideration**

9. The IAASB is asked whether it agrees with the Task Force's proposals described in paragraphs 35–36 to:
- Revise the requirement relating to financial data in the other information that is extracted from or capable of being reconciled to the audited financial statements; and
  - Provide illustrative examples and other relevant application and explanatory material to assist the auditor in complying with the requirement.

**D. Matters that Materially Affect the Other Information**

37. The March 2011 version of draft revised ISA 720 introduced the following term to define matters that the auditor is concerned with when performing proposed revised ISA 720:

Misrepresentation of other information – Either:

- (i) A statement of fact in the other information that the auditor considers to be incorrect;
- (ii) A statement involving management judgment in the other information that the auditor considers to be unreasonable or inappropriate; or
- (iii) An omission or manner of presentation that the auditor considers may be misleading about a matter(s) in the other information,

in light of the auditor's understanding of the entity and its environment, or information acquired during the course of the audit.

*“Misrepresentation of Other Information”*

- 38. There has been clear concern over the use of the term *“misrepresentation of other information.”* It was noted that the use of such a term may be problematical because it may adopt a specific meaning in law, regulation or other professional standards, and such meaning could vary by jurisdiction.
- 39. The Task Force proposes to replace this with *“matter(s) that affects the other information.”* It believes that the use of a more generic phrase avoids the possibility of the selected term being associated with similar terms used in another context. [See paragraph 8(b) in Agenda Item 5-B.]

**Matter for IAASB's Consideration**

- 10. The IAASB is asked whether it agrees with the Task Force's proposals described in paragraph 39 to replace *“misrepresentation of other information”* with *“matter(s) that affects the other information.”*

*Omitting or Obscuring Other Information*

- 40. Questions were also raised regarding the matter of omitted and obscured other information. While supportive of the principle, the manner in which the proposal is articulated seems to imply that the auditor has responsibility for all possible omissions. This was not seen as practicable as there are many circumstances in which the auditor would not possess adequate knowledge (based on that acquired during the conduct of the audit) to determine matters that have been omitted particularly if management has not made such matters known to the auditor or is intentionally concealing such matters.
- 41. The Task Force agrees with the comment made. Accordingly, it proposes to clarify that the expectation is not for the auditor to identify matters that have been omitted for which the auditor has no knowledge. Instead, the auditor's concern regarding matter(s) that affect the other information is intended only to encompass subject(s) that is *already addressed* in the other information. Specifically, the Task Force proposes to specify that a matter(s) that affect the other information would include a statement(s) presented in a way that the auditor considers to be misleading because it omits or obscures information necessary to properly understand a particular subject(s) *addressed* in the other information. [See paragraph 8(b)(iii) in Agenda Item 5-B.]

**Matter for IAASB's Consideration**

11. The IAASB is asked whether it agrees with the Task Force's proposal described in paragraph 41 to clarify the auditor's responsibilities with respect to omitted and obscured other information.

**E. Other Matters**

*Supplementary Information*

42. In March 2011, the IAASB asked the Task Force to consider whether the material in ISA 700 relating to supplementary information needs to be revised in view of the revisions to ISA 720.
43. The Task Force proposes consequential amendments to ISA 700 to explain that unaudited supplementary information falls within the definition of other information contained in ISA 720. It further proposes to make a cross reference in the ISA to revised ISA 720. **[See paragraph A51 in Agenda Item 5-E which presents consequential amendments to ISA 700 in mark-ups.]**

**Matter for IAASB's Consideration**

12. The IAASB is asked whether it agrees with the proposed consequential amendments to ISA 700 as described in paragraph 43.

*Documentation*

44. In March 2011, the Task Force proposed that because it is typically the case that the entity produces several iterations of the document on which the auditor is required to perform procedures under ISA 720, the auditor should make the necessary arrangements with management to agree on the version for the purpose of applying ISA 720. A few members of the IAASB raised that the requirement should be for the auditor's work effort to be performed on the *final* versions of the documents and that these versions should be retained in the audit documentation.
45. The Task Force agrees with the comment made and proposes to revise the requirement accordingly. **[See paragraph 21 in Agenda Item 5-B.]**

**Matters for IAASB's Consideration**

13. The IAASB is asked whether it agrees with the Task Force's proposals described in paragraph 45 to require the auditor to perform work on, and to retain in the audit documentation a copy of, the final version of the document(s) prepared by the entity.

## **Other Considerations**

### **Consideration by IAASB of the Effective Date**

46. To allow for effective adoption and implementation of revised ISA 720 at the national level, the Task Force believes an appropriate effective date for the standard would be 12–15 months after approval of the final ISA. The explanatory memorandum to the exposure draft will invite respondents to comment on whether this would likely provide a sufficient period to support effective implementation of revised ISA 720. The Task Force also believes that early adoption of the revised ISAs will be encouraged.

### **Consideration by IAASB of Significant Matters Identified by the Task Force**

47. In the Task Force's view, the significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have all been reflected in the issues papers presented to the IAASB at its meetings. In the Task Force's view, there are no significant matters discussed within the Task Force on this project that have not been brought to the IAASB's attention.

### **Consideration by IAASB of Need for Further Consultation**

48. The Task Force does not believe that it is necessary at this stage to hold a public forum or roundtables, or issue a consultation paper, or to conduct field testing, in order to solicit views on a matter under consideration in the revision of ISA 720.
49. In addition to consulting with Representatives of the IAASB CAG throughout the development of proposed revised ISA 720, the Task Force has already benefitted from input received from the IAASB–NSS Liaison Group<sup>6</sup> at its annual meeting held in April 2011 as well as through additional survey work. The Task Force has also benefitted from dialogue with regulators and audit inspection agencies throughout the development of its proposals.

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<sup>6</sup> Annually, the IAASB hosts a meeting of a group of national auditing standard setters from around the world that share the common goals of promulgating high quality standards, and reaching consensus at an early stage in their development. A [Statement of Purpose of IAASB and National Auditing Standard Setters Liaison](#) is available on the IAASB website.

## Appendix

### Options for Describing the Nature and Purpose of Documents that are within the Scope of Proposed Revised ISA 720

OPTION A	OPTION B
<p><b>Definitions</b></p> <p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <ul style="list-style-type: none"> <li>a. Contains audited financial statements and the auditor's report thereon; or</li> <li>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and: <ul style="list-style-type: none"> <li>i. Has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment; and</li> <li>ii. Its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit.</li> </ul> </li> </ul>	<p><b>Definitions</b></p> <p>8(a)(i). <i>Nature and purpose.</i> Either:</p> <ul style="list-style-type: none"> <li>a. Contains audited financial statements and the auditor's report thereon; or</li> <li>b. Is prepared to accompany audited financial statements and the auditor's report thereon, and has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process.</li> </ul>
<p><b>Application and Other Explanatory Material</b></p> <p>A10. The subject matter of a document accompanying the audited financial statements and the auditor's report thereon is essential to determining whether or not the document is within the scope of this ISA. Where the document has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment, and its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit, such a document would generally be within the scope of this ISA. Examples include the</p>	<p><b>Application and Other Explanatory Material</b></p> <p>A10. The subject matter of a document accompanying the audited financial statements and the auditor's report thereon is essential to determining whether or not the document is within the scope of this ISA. Where a document has a primary purpose of providing commentary to enhance the intended users' understanding of audited financial statements and the financial reporting process, such a document would generally be within the scope of this ISA. Examples include the following:</p>

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<p>following:</p> <ul style="list-style-type: none"> <li>• Management's discussion and analysis (or management report or operating and financial review)</li> <li>• Directors' report</li> <li>• Corporate governance statement</li> <li>• Internal control and risk assessment reports</li> </ul> <p>A10a. Documents such as sustainability and corporate social responsibility reports may be within or outside of the scope of this ISA depending on their contents.</p> <p>A10b. Where a document only addresses other subject matters it is more likely that the document would be outside of the scope of this ISA because the information in these documents often extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. Examples include documents prepared and issued by the entity on the following:</p> <ul style="list-style-type: none"> <li>• Diversity and equal opportunity</li> <li>• Product responsibility</li> <li>• Labor practices and working conditions</li> <li>• Human rights</li> </ul>	<ul style="list-style-type: none"> <li>• Management's discussion and analysis (or management report or operating and financial review)</li> <li>• Directors' report</li> <li>• Corporate governance statement</li> <li>• Internal control and risk assessment reports</li> </ul> <p>A10a. Documents that are generally considered to be outside the scope of this ISA are those whose primary purpose extends beyond the audited financial statements and the financial reporting process. Examples include documents prepared and issued by the entity on the following:</p> <ul style="list-style-type: none"> <li>• Sustainability and corporate social responsibility</li> <li>• Diversity and equal opportunity</li> <li>• Product responsibility</li> <li>• Labor practices and working conditions</li> <li>• Human rights</li> </ul>
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