

The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon—

Proposed International Standard on Auditing 720 (Revised)

[Clean]

(Effective for audits of financial statements for periods ending on or after [date])

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International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to information other than audited financial statements and the auditor's report thereon (referred to as "other information" for the purpose of this ISA) in documents containing or accompanying audited financial statements and the auditor's report thereon that are within the scope of this ISA.
2. This ISA requires the auditor to read and consider other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. By doing so, the auditor may identify matters that may materially affect those audited financial statements, the auditor's report thereon, or the other information itself. This ISA sets out the auditor's responsibilities in these cases.
3. The ISAs do not impose an obligation on the auditor to obtain assurance as to the accuracy, reliability or completeness of such other information sufficient to express a conclusion thereon. Notwithstanding this, law or regulation may require the auditor to specifically report on such other information. In these circumstances, those additional requirements are outside of the scope of this ISA.

The Nature of Other Information

4. Other information may be included, either by law, regulation, custom or voluntarily, in a document containing or accompanying audited financial statements and the auditor's report thereon. Such information is issued by the entity for the purpose of providing further commentary to enhance the intended users' understanding of the entity and its environment. (Ref: Para. A1–A2)
5. This ISA does not apply to preliminary announcements of financial information and securities offering documents or other prospectuses.¹ However, the auditor may be required by law, regulation or terms of contract to perform work on such documents. In these circumstances, this ISA may be applied, adapted as necessary.² (Ref: Para. A1–A2)

Effective Date

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

¹ Paragraph 8(a) of this ISA describes the key features of document(s) that are within the scope of this ISA.

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 2

Objectives

7. The objectives of the auditor are to:
 - (a) Read and consider other information in documents containing or accompanying audited financial statements and the auditor's report thereon that are within the scope of this ISA; and
 - (b) Evaluate and respond appropriately to matters identified that may materially affect those audited financial statements, the auditor's report thereon, or the other information itself.

Definitions

8. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Other information – Information other than audited financial statements and the auditor's report thereon that is included, either by law, regulation, custom or voluntarily, in a document that is within the scope of this ISA. (Ref: Para. A3–A8)

A document is within the scope of this ISA only if it is prepared and issued by the entity and displays all of the following key features:

- (i) *Nature and purpose*. Either:
 - a. Contains audited financial statements and the auditor's report thereon; or
[Option A:
 - b. Is prepared to accompany audited financial statements and the auditor's report thereon, and:
 - i. Has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment; and
 - ii. Its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit.]
 - [Option B:
 - 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.]
- (ii) *Timing of availability*. Intended to be made available to the intended users along with, or at about the same time as, the initial release, typically annually, of the audited financial statements and the auditor's report thereon; and
- (iii) *Intended users*. Same as the intended users of the audited financial statements.

(b) Matter(s) that affects 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) A statement 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.

The effect of such a matter(s) on the other information is considered to be material if, individually or in the aggregate, it could reasonably be expected to influence the economic decisions of users taken on the basis of the other information and the audited financial statements.

Requirements

Obtaining, Reading and Considering Other Information

- 9. The auditor shall make appropriate arrangements with management or those charged with governance to obtain, prior to the date of the auditor's report, documents that are within the scope of this ISA. (Ref: Para. A9–A13)
- 10. If it is not possible to obtain all the documents that are within the scope of this ISA prior to the date of the auditor's report, the auditor shall make appropriate arrangements with management or those charged with governance to obtain such documents as soon as practicable and, in any case, prior to their issuance. (Ref: Para. A12–A13)
- 11. The auditor shall read and consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit. (Ref: Para. A14–A19)
- 12. In addition, when considering financial data in the other information that is extracted from or capable of being reconciled to the audited financial statements, the auditor shall 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. (Ref: Para. A20–A21)

Evaluating and Responding to Matters Relating to Audited Financial Statements

- 13. If the auditor identifies a matter(s) that leads the auditor to believe that the audited financial statements may be materially misstated, the auditor shall perform procedures necessary under the ISAs to determine whether the matter(s) causes the audited financial statements as a whole to be materially misstated.
- 14. If the auditor determines that the matter(s) causes the audited financial statements as a whole to be materially misstated and management refuses to revise the audited financial statements,

the auditor shall carry out such procedures as required by the ISAs including either:

- (a) Modifying the opinion in the auditor's report in accordance with ISA 705³ where the other information is obtained prior to the date of the auditor's report; or
- (b) Taking the appropriate actions in accordance with ISA 560⁴ where the other information is obtained subsequent to the date of the auditor's report.

Evaluating and Responding to Matters Relating to Other Information

15. If the auditor identifies a matter(s) that may materially affects the other information, the auditor shall discuss the matter(s) with management and, if necessary by performing other procedures, shall determine whether individually or collectively the matter(s): (Ref: Para. A22–A24)

- (a) Is not likely to materially affect the other information; or
- (b) Materially affects the other information.

Other Information Obtained Prior to the Date of the Auditor's Report

16. If the auditor has determined that the matter(s) materially affects the other information that was obtained prior to the date of the auditor's report and:

- (a) Management agrees to correct the other information, the auditor shall determine that the correction has been made; or
- (b) Management refuses to correct the other information, the auditor shall:
 - (i) Communicate this matter to those charged with governance and request that such matter(s) be corrected; and
 - (ii) Not date the auditor's report pending resolution of the matter.

17. If the other information is still not corrected, the auditor shall:

- (a) Reevaluate the integrity of management and those charged with governance, and evaluate the effect that this may have on the reliability of the other information and audit evidence in general; and
- (b) Take the appropriate action(s), which may include withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation. (Ref: Para. A25–A27)

18. Except where the auditor withdraws from the engagement, the auditor shall include in the auditor's report an Other Matter(s) paragraph describing the matter(s) that materially affect

³ ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 6–28

⁴ ISA 560, *Subsequent Events*, paragraphs 10–17

the other information in accordance with ISA 706.⁵

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

19. If the auditor has determined that the matter(s) materially affects the other information that was obtained after the date of the auditor's report:
 - (a) If management agrees to correct the other information, the auditor shall:
 - (i) Determine that the correction has been made; and
 - (ii) If the other information has already been issued by the entity, review the steps taken by management to inform recipients of the correction to determine whether further action by the auditor is required; or
 - (b) If management refuses to correct the other information, the auditor shall communicate this matter(s) to those charged with governance, and request that such matter(s) be corrected.
20. If the other information is still not corrected, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref: Para. A28)

Documentation

21. The auditor shall retain in the audit documentation a copy of the final version of the document(s) on which the auditor's work effort under this ISA was performed. (Ref: Para. A29–A30)

Application and Other Explanatory Material

The Nature of Other Information (Ref: Para. 4–5)

- A1. 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 paragraph 8(a) of this ISA.
- A2. Law or regulation may impose additional responsibilities on the auditor in relation to other information that are beyond the scope of this ISA. For example, some jurisdictions may require the auditor to apply specific procedures to certain of the other information, or to express a conclusion thereon, or to report on the other information or parts thereof.

Definition of Other Information (Ref: Para. 8(a))

- A3. Other information in a document that is within the scope of this ISA may be financial or non-

⁵ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

financial in nature and may be historical or prospective. Examples of other information include the following:

Financial

- Financial summaries or highlights
- Planned expenditures
- Segment information⁶
- Financial ratios
- Selected quarterly financial data
- Financial key performance indicators
- Management commentary (see paragraph A4 of this ISA.)

Non-Financial

- Names and profiles of officers and directors
- Employment data
- Descriptions of business model, strategy, risks, and outlook
- Governance statements
- Sustainability and corporate social responsibility information (such as environmental, labor practices and working conditions, and product responsibility information)
- Statements of internal control
- Non-financial key performance indicators

- A4. The International Financial Reporting Standard (IFRS) Practice Statement on management commentary⁷ explains that management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity's financial position, financial performance and cash flows. It also provides commentary on an entity's prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives.
- A5. Unaudited supplementary information that is presented with and clearly differentiated from the audited financial statements is dealt with in ISA 700.⁸ As explained in ISA 700,⁹ such

⁶ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*, deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to segment information in an audit of financial statements when, under the applicable financial reporting framework, the entity is required or permitted to disclose such information in the audited financial statements.

⁷ IFRS Practice Statement, *Management Commentary* as at December 2010

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 46–47 and A45–A51

information falls within the definition of other information and is therefore within the scope of this ISA.

- A6. In some cases, the applicable financial reporting framework may permit disclosures required under the financial reporting framework to be located outside of the audited financial statements.¹⁰ Nevertheless such disclosures are part of the audited financial statements, and therefore do not constitute other information for the purpose of this ISA.
- A7. eXtensible Business Reporting Language tagged data does not represent other information as contemplated in this ISA, because it is simply a machine-readable rendering of the data within the financial statements, rather than other information, as defined in paragraph 8(a).

Considerations Specific to Public Sector Entities

- A8. In the public sector, examples of other information may include efficiency targets and other performance metrics including, for example, those relating to quality of services and volume of work.

Obtaining, Reading and Considering Other Information

Documents Containing Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 9)

- A9. A document containing audited financial statements and the auditor's report thereon as described in paragraph 8(a) of this ISA is typically referred to as an annual report, although such a document may also be known by a different term.

Documents Accompanying Audited Financial Statements and the Auditor's Report Thereon (Ref: Para. 9)

[Option A:

- 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 (including the audited financial statements and the financial reporting process), 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 following:

⁹ ISA 700, paragraph A51

¹⁰ For example, International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures* permits certain disclosures required by the IFRSs to be either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

- Management's discussion and analysis (or management report or operating and financial review)
- Directors' report
- Corporate governance statement
- Internal control and risk assessment reports

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.

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:

- Diversity and equal opportunity
- Product responsibility
- Labor practices and working conditions
- Human rights]

[Option B:

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:

- Management's discussion and analysis (or management report or operating and financial review)
- Directors' report
- Corporate governance statement
- Internal control and risk assessment reports

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:

- Sustainability and corporate social responsibility
- Diversity and equal opportunity
- Product responsibility
- Labor practices and working conditions

- Human rights]

A11. Documents within the scope of this ISA may be made available to the intended users in the form of printed hardcopy, or electronically, including by posting on the entity's website. Although the auditor is not expected to search the entity's website for documents that are within the scope of the ISA, a document that meets the criteria in paragraph 8(a) is within the scope of this ISA, irrespective of the manner in which it is made available to the intended users.

Availability of Other Information (Ref: Para. 9–10)

A12. This ISA applies regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. Obtaining the other information prior to the date of the auditor's report is important as it enables revisions, if any, to be made to the audited financial statements or the auditor's report, and corrections, if any, to be made to the other information prior to their issuance. An agreement with management as to when the other information will be available is desirable. The audit engagement letter may make reference to the agreement of management to make available to the auditor the other information in time to allow the auditor to complete the procedures required under this ISA.

A13. The auditor is not precluded from dating the auditor's report if the auditor has not obtained the other information. Paragraphs 13–14(b), 15 and 19–20 of this ISA describe the auditor's procedures when the other information is obtained after the date of the auditor's report.

Reading and Considering Other Information in Light of the Auditor's Understanding (Ref: Para. 11)

A14. The auditor's understanding of the entity and its environment acquired during the course of the audit forms the basis for the auditor's consideration of the other information as required in this ISA. ISA 315¹¹ sets out the matters relating to the entity and its environment, including the entity's internal control, for which the auditor is required to obtain an understanding for the purpose of the audit. Such matters include the following:

- (a) The relevant industry, regulatory, and other external factors;
- (b) The nature of the entity;
- (c) The entity's selection and application of accounting policies;
- (d) The entity's objectives and strategies;
- (e) The measurement and review of the entity's financial performance; and
- (f) The entity's internal control.

¹¹ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs A17–A104

- A15. A document that is within the scope of this ISA may include other information that extends beyond the auditor's knowledge of the entity and its environment acquired in connection with the audit. In meeting the requirements of this ISA, the auditor is not required to seek to enhance their knowledge of the entity and its environment beyond that required for purposes of the audit.
- A16. The auditor is required by ISA 200¹² to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that circumstances may exist that may raise doubt about the audited financial statements and other information, and possibly the competence, integrity, ethical values or diligence of management, or about its commitment to these.

Responsibility for Reading and Considering Other Information (Ref: Para. 11)

- A17. In accordance with ISA 220,¹³ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, the engagement partner identifies the individuals on the engagement team, including the engagement partner, to be assigned tasks relating to reading and considering the other information. Factors to consider may include whether the individuals to be assigned the tasks have the relevant knowledge to consider the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit.
- A18. Typically, more experienced members of the engagement team would be assigned responsibility for other information that involves a greater amount of professional judgment. Similarly, less complex procedures involving a lower degree of judgment such as cross-checking of figures to the audited financial statements may be carried out by less experienced members of the engagement team.
- A19. In the case of a group audit, there may be circumstances where the group engagement partner determines a need to engage the assistance of the component auditor.

The Auditor's Procedures Relating to Other Information Extracted from or Capable of Being Reconciled to Audited Financial Statements (Ref: Para. 12)

- A20. The auditor's procedures to test the extraction or reconciliation of financial data in the other information are aimed at determining the consistency of such items with the audited financial statements. Such tests may include the following:
- Agreeing financial data in the other information extracted directly from the audited financial statements to the audited financial statements.

¹² ISA 200, paragraph 15

¹³ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- Reviewing the financial data in the other information and testing management's reconciliation of the items to the audited financial statements.

A21. 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 is made with consideration for the likely material effect of an inconsistency in the financial data on the credibility of the audited financial statements.

Evaluating and Responding to Matters Relating to Other Information (Ref: Para. 15)

A22. When reading and considering the other information, the auditor is not expected to substitute the auditor's professional judgment for that of management and those charged with governance when dealing with matters requiring judgment that are the responsibilities of these parties. While it may be more difficult for the auditor to challenge management on a matter of judgment relating to such other information, there may be circumstances where the auditor may determine management assertions exist in the other information that are inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit. Such a matter(s) may raise doubt about the audited financial statements or the other information.

A23. If the auditor identifies a matter(s) that may materially affect the other information, paragraph 15 of this ISA requires the auditor to discuss the matter(s) with management. The discussion with management may lead the auditor to conclude that the matter(s) does not materially affect the other information because management has provided further information or explanations including, for example, where there are valid differences of judgment or opinion.

A24. On the contrary, during the discussion with management, the auditor may obtain further information or explanations relating to the matter(s) raised that reinforces the auditor's belief that the matter(s) may materially affect the other information. In such cases, the auditor performs other procedures in accordance with paragraph 15 of this ISA. The nature and extent of such procedures is guided by information obtained from the auditor's evaluation of the results of the audit procedures already performed, and the auditor's understanding of the entity and its environment acquired during the course of the audit. In certain circumstances, the auditor may not be able to assess management's responses to the auditor's inquiries and accordingly the validity of management's assertion. In these circumstances, other procedures the auditor may consider include requesting management to consult with a qualified third party such as legal counsel or other experts.

Other Information Obtained Prior to the Date of the Auditor's Report (Ref: Para. 17(b))

- A25. Appropriate actions that the auditor may take include seeking advice from the auditor's legal counsel. Further, law, regulation or other professional standards may require that the matter(s) be communicated by the auditor to the regulator or relevant professional body.
- A26. The auditor may consider it appropriate to withdraw from the engagement, where withdrawal is appropriate and possible under the applicable law or regulation, for example, if the auditor

has determined that management lacks integrity. The ISAs addresses relevant circumstances in which the auditor may determine that the auditor is unable to continue with the engagement.¹⁴ In these circumstances, requirements in ISA 705 are relevant.¹⁵

Considerations Specific to Public Sector Entities

A27. In the public sector, withdrawal from the engagement or withholding the auditor's report may not be possible. In such cases, the auditor may issue a report to the legislature giving details of the matter(s) that materially affects the other information.

Other Information Obtained After the Date of the Auditor's Report (Ref: Para. 20)

A28. In some cases, the auditor may believe that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on financial statements previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance. In such cases, the auditor's course of action depends upon the auditor's legal rights and obligations. The auditor may consider it appropriate to seek legal advice.

Documentation (Ref: Para. 21)

A29. In accordance with paragraph 21 of this ISA, the auditor makes the necessary arrangements with management to obtain and retain the final version of the document(s) on which the auditor has performed work under this ISA. Such arrangements may include, for example, obtaining the version of the document(s) that has been approved by the board of directors. The auditor may also consider whether to obtain a written representation from management regarding this matter.

A30. A copy of the final version of the document(s) is included in the audit documentation so that, in cases where the document(s) is subsequently amended by the entity without the knowledge of the auditor, such documentation serves as a record of the version on which the auditor has performed the work effort as required by this ISA.

¹⁴ See ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, ISA 260, *Communication with Those Charged with Governance*, and ISA 580, *Written Representations*.

¹⁵ ISA 705, paragraph 14