

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**Background**

1. At its September 2011 meeting, the IAASB discussed and reached broad agreement on the following significant issues to be addressed in the revision of ISA 720:¹
 - *Scope of ISA 720.* The IAASB considered two options for scoping draft revised ISA 720 in relation to documents accompanying initial release of the audited financial statements and the auditor's report thereon.² IAASB members expressed overwhelming support for extending the scope of the ISA only to such "accompanying" documents that have a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process (see paragraph 29 for further discussion).
 - *The Auditor's Objectives.* Extant ISA 720 requires the auditor to respond to matters in the other information that could undermine the credibility of audited financial statements and the auditor's report thereon. The IAASB was broadly supportive of widening the concept to require the auditor to respond to matters 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.
2. The IAASB also provided direction to the Task Force on the following issues:
 - *The auditor's consideration of financial data in the other information*
 - *Inconsistencies in the other information*
 - *Evaluating and responding to matters identified by the auditor*

The Task Force's proposals in response to the IAASB's comments are described in the remainder of this issues paper.

Structure of this Issues Paper

3. This Issues Paper sets out the Task Force's recommendations on the significant matters raised by the IAASB at its September 2011 meeting relating to the revision of ISA 720:

¹ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

² The two options for defining "accompanying" documents that are in the scope of draft revised ISA 720 were (a) those that have a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment and [that have a] subject matter [that] is within the auditor's understanding of the entity and its environment acquired during the course of the audit; and (b) those that have a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process.

- (a) **Section A: The Auditor's Consideration of Financial Data in the Other Information.** Discusses proposals to revise the requirements and application guidance relating to the auditor's procedures when considering financial data in the other information.
- (b) **Section B: Inconsistencies in the Other Information.** Discusses the concept of "material inconsistency" and proposed explanatory material.
- (c) **Section C: Evaluating and Responding to Matters that May Indicate Inconsistencies in the Other Information.** Discusses proposals relating to the actions required of the auditor in the event the auditor identifies other information that is inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit.
- (d) **Section D: Documents Containing Audited Financial Statements and the Auditor's Report Thereon.** Discusses recommendations to build in the concept of "initial release" into "[documents that] contain audited financial statements and the auditor's report thereon" to appropriately reflect the intended scope of draft revised ISA 720.
- (e) **Section E: Obtaining Other Information.** Discusses recommendations to clarify the requirement for the auditor to make appropriate arrangements with management to obtain documents that are within the scope of draft revised ISA 720.
- (f) **Section F: Other Matters.** Discusses recommendations to clarify draft revised ISA 720 relating to the topics of establishing the auditor's responsibilities upfront in ISA 720, securities offerings, documentation, financial reporting process and translation.

Significant Issues and Task Force Recommendations

A. The Auditor's Consideration of Financial Data in the Other Information

4. The September 2011 version of draft revised ISA 720³ included the following requirement relating to the auditor's consideration of financial data in the other information:

[W]hen 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.

5. The IAASB expressed concern over the clarity of this requirement, believing what is required of the auditor remains ambiguous. More broadly, the IAASB cautioned that, without appropriate boundaries around the nature and scope of the procedures that the auditor is required to perform, it is questionable whether such a requirement is capable of consistent interpretation in practice and also, if interpreted broadly, whether it would be practicable in all circumstances. During its discussion, the IAASB noted that, even though some financial data are partly reconcilable to the audited financial statements, some or all

³ Refers to the September 2011 IAASB meeting turnaround draft of 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*

components of the reconciliation are not extracted directly from the entity's audited financial statements but may be derived from the underlying accounting records or may be based on complex models. These financial data are not *directly* reconcilable to the audited financial statements. The IAASB asked the Task Force to give further consideration to which types of financial data should be subject to such tests of extraction or reconciliation.

Task Force Recommendations

6. The Task Force has considered the IAASB's comments and agrees that it is impracticable to require the auditor to perform work on *all* financial data in the other information because, for example, circumstances such as those describe in paragraph 5 may exist. The Task Force also agrees that draft revised ISA 720 needs to articulate clear boundaries and the factors that need to be taken into account by auditors when determining the nature and scope of the auditors' procedures to be performed in order to comply with the requirement.
7. The Task Force is of the view that, to safeguard the credibility of the audited financial statements, auditors need to take appropriate actions when an inconsistency in the financial data is identified that would have a material effect on the statements' credibility. It is equally important to ensure that the procedures required of the auditors in such circumstances correspond to the auditor's objectives under the revised ISA so as to avoid creating an expectations gap (for example, that the auditor is providing assurance on the financial data in the other information).
8. The Task Force believes that auditors need to give consideration to the nature of financial data in the other information in order to determine the procedures to be performed. In particular, other information may contain financial data that are directly extracted from and intended to be the same as those in the audited financial statements. Where this is the case, auditors should compare such financial data with the equivalent in the audited financial statements. Financial data may also be directly reconcilable to the audited financial statements. This is the case when the components of the reconciliation can be agreed *directly* to the corresponding financial data in the audited financial statements. Examples include commonly used non-GAAP measures such as earnings before interest, taxes, depreciation, and amortization (EBITDA) and free cash flow (FCF). Where this is the case, auditors should obtain management's reconciliation of such data and compare the components of the reconciliation to the audited financial statements.
9. Accordingly, the following is proposed (also see paragraphs 11 to 13):
 - (a) Setting the threshold for the auditor's procedures when considering financial data in the other information at the level where an inconsistency in the financial data would have a material effect on the credibility of the audited financial statements; and
 - (b) For such financial data, requiring the auditor to perform the following procedures:
 - (i) Comparing the financial data to the audited financial statements where such financial data are intended to be the same as those in the audited financial statements; and
 - (ii) Obtaining management's reconciliation of such data and comparing the components of the reconciliation to the audited financial statements, where such

data are directly reconcilable to the audited financial statements. **[See paragraph 11 in Agenda Item 11-B.]**

10. There may also be other financial data for which some or all components of the reconciliation are not *directly* reconcilable to the audited financial statements because they are not extracted directly from the entity's audited financial statements but may be derived from the entity's underlying accounting records or may be based on complex models. Examples include actuarial figures, prudential ratios and embedded values. Because there is no *direct* relationship between such financial data and the audited financial statements, such data is not directly reconcilable to the audited financial statements and therefore the procedures described in paragraph 9 above would not apply in these cases. However, it is important to emphasize that such financial data would be within the scope of the other information that the auditor is required by draft revised ISA 720⁴ to read and consider for consistency with the auditor's understanding of the entity and its environment. **[See paragraphs A27–A28 in Agenda Item 11-B.]**
11. A Task Force member believes that only a very narrow set of financial data in the other information would be subject to the auditor's procedures under paragraph 9. This arises because of: (i) the exemption, from the threshold in paragraph 9(a) for performing procedures under paragraph 9(b), of those financial data that may be materially inconsistent with the auditor's understanding but that do not have a material effect on the credibility of the financial statements⁵ and (ii) drawing the boundary where the financial data is the same as or *directly* reconcilable to the audited financial statements for performing the procedures in paragraph 9(b).⁶ This member believes that paragraph 9(a) should be extended to include other inconsistencies that could be material. Also, for financial data identified under the extended threshold that are derived (at least in part) from the underlying accounting records, the auditor should be required under paragraph 9(b) to obtain and consider management's reconciliation, including tracing appropriate reconciling items back to those records (at least on a test basis) and where necessary considering the information on other schedules showing how the financial data have been derived from those records.⁷ Otherwise, the member believes that the auditor would not adequately meet the objective of draft revised ISA 720 of responding appropriately to other information that is materially inconsistent with the auditor's understanding of the entity and its environment and would not be able to effectively consider the identified financial data in light of the auditor's knowledge of the entity acquired during the audit.
12. Others on the Task Force questioned the appropriateness of requiring the auditor to agree financial data in the other information back to the entity's underlying accounting records

⁴ See paragraph 10 of **Agenda Item 11-B**

⁵ Paragraph 9(a) addresses the auditor's responsibilities and objective referred to in paragraphs 2(a) and 6(a) in **Agenda Item 11-B** but not those in paragraphs 2(b) and 6(b).

⁶ This member believes, for example, that an analysis of revenue unless that analysis was also included in the audited financial statements and a statement of adjusted earnings unless the adjustments can be traced directly to an item in the audited financial statements may be excluded in these circumstances.

⁷ Guidance should further clarify the auditor is not required to perform tests of any reconciling items that are derived from complex actuarial or financial models.

given that the auditor's objective under ISA 720 is not to provide assurance on such information. These members believe that there exists a very real risk that intended users may take a level of assurance from the auditor's procedures that is not warranted. For example, if the auditor has taken a substantive approach, it may not be understood that the auditor has not tested the operating effectiveness of controls around the accounting records from which the financial data are drawn.

13. To illustrate the main differences in the two approaches described above, consider the example of a statement about the underlying rate of change in a financial item (such as revenue) after adjusting for changes in currency rates. Under draft revised ISA 720, the auditor would be required to consider whether the statement is in any manner materially inconsistent with the auditor's understanding of the entity and its environment and, if so, to respond appropriately as required by the ISA. Under the approach described in paragraph 9, because all the data in the statement is not *directly* reconcilable to the audited financial statements, the auditor is not compelled to perform any procedures to consider how that data has been derived from the underlying accounting records. Under the approach described in paragraph 11, the auditor would consider management's reconciliation of the financial data in the statement to the underlying accounting records (at least on a test basis), including where necessary examining other schedules showing how the financial data have been derived from the financial records.

Matters for IAASB's Consideration

1. The IAASB is asked whether it agrees with the proposal to require the auditor to perform procedures on those financial data where an inconsistency would have a material effect on the credibility of the audited financial statements.
2. If so, and noting the comments in paragraphs 11–13 above, does the IAASB agree that the auditor should be required:
 - For financial data that are intended to be the same as those in the audited financial statements, to compare the financial data to the audited financial statements; and
 - For financial data that are directly reconcilable to the audited financial statements, to obtain management's reconciliation of such data and compare the components of the reconciliation to the audited financial statements?

B. Inconsistencies in the Other Information

14. The September 2011 version of draft revised ISA 720 included the following description of the matters that the auditor is concerned with when performing procedures relating to other information:

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.

15. The IAASB iterated its support for revising ISA 720 to enhance the rigor of the auditor's procedures in relation to other information through, for example, better leveraging the auditor's knowledge of the entity and its environment acquired during the course of the audit. However, it expressed concern that the Task Force's proposed expansion of the matters for which the auditor needs to be alert when considering other information may be too broad, especially when placed into a definition, considering the auditor's work effort required under the standard. IAASB members provided a number of suggestions, including considering whether such material is better placed as guidance in draft revised ISA 720. Separately, doubts were also raised about whether the requirement for the auditor to make judgments about the reasonableness or appropriateness of management's judgment is appropriate when dealing with other information.

Task Force Recommendations

16. The Task Force accepts the IAASB's comments and recommends replacing the concept of "matter(s) that affects the other information" with "material inconsistency." To explain, a matter(s) in the other information may be inconsistent with the auditor's understanding of the entity and its environment (including the audited financial statements) in the following ways:
- A statement that the auditor considers to be incorrect, unreasonable or inappropriate; or
 - A statement presented in a way that omits or obscures information that the auditor considers is necessary to properly understand subject(s) addressed in the other information. **[See paragraph A29 in Agenda Item 11-B.]**
17. The Task Force proposes application guidance in support of this concept of material inconsistency. Inconsistencies identified by the auditor in the other information may range from those that the auditor considers are clearly trivial to those that the auditor considers are material inconsistencies, which the Task Force believes the auditor should ask the entity to correct. It may also be the case that other information that is inconsistent with the auditor's understanding of the entity and its environment is, in the auditor's judgment, materially false or misleading. When the auditor becomes aware that the auditor has been associated with such information, the IESBA Code⁸ requires the auditor to take steps to be disassociated from that information.
18. To assist auditors in determining whether identified inconsistencies are material, the Task Force proposes to explain that the effect of an inconsistency is considered to be material if, individually or in aggregate, it could reasonably be expected to influence the economic

⁸ International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants*

decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole.

19. The Task Force also agrees with the IAASB that it is appropriate for the proposed description of an inconsistency and accompanying explanatory material to be included as application guidance in draft revised ISA 720. [See paragraphs A29–A31 in Agenda Item 11-B.]

Matters for IAASB's Consideration

3. The IAASB is asked whether it agrees with the Task Force's proposal to replace the concept of "matter(s) that affects the other information" with "material inconsistency."
 - If so, does the IAASB agree with the description of an inconsistency (see paragraph 16) and proposed supporting explanatory material (see paragraphs 17–18)?
4. The IAASB is asked whether it agrees with placing the proposed description of an inconsistency and accompanying explanatory material as guidance.

C. Evaluating and Responding to Matters that May Indicate Inconsistencies in the Other Information

20. In September 2011, the IAASB asked the Task Force to give further consideration to the actions required of the auditor in the event the auditor identifies other information that is inconsistent with the auditor's understanding of the entity and its environment. While the IAASB had not received indications that the requirements of extant ISA 720 no longer remained sound, it questioned whether the actions required of the auditor continue to be appropriate in view of the proposed changes to the auditor's responsibilities from those prescribed in extant ISA 720.

Task Force Recommendations

21. The Task Force was asked to consider whether the approach in ISA 265⁹ of tailoring the auditor's responses to matters identified depending on their "significance" similarly applies in the case of other information, since more judgment is involved in determining a material inconsistency with the auditor's understanding of the entity and its environment. This may be helpful in setting appropriate expectations regarding matters that can be recognized by the auditor and the actions required to be taken in such circumstances. For example, the threshold at which auditors would be required to raise matters relating to the other information with management and those charged with governance would be different—in this case lower—than when auditors have a reporting responsibility. The Task Force has considered the IAASB's comments and, in conjunction with the proposals in Section D: Inconsistencies, recommends the following:
22. First, the Task Force believes that if the auditor identifies a matter(s) in the other information that may be inconsistent with the auditor's understanding of the entity and its

⁹ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

environment, other than when such matter(s) is clearly trivial, the auditor should be required to (i) discuss the matter(s) with management; and (ii) if the auditor believes it is necessary, perform other procedures to obtain further understanding of whether an inconsistency exists. Second, if the auditor concludes that a material inconsistency is present, the auditor should request management to correct the other information. Thereafter, the auditor's actions would depend upon on the timing at which the other information was obtained. **[See paragraphs 15–16 in Agenda Item 11-B.]**

23. Where the other information is obtained prior to the date of the auditor's report, the Task Force felt that if the other information is still not corrected after the auditor has requested both management and those charged with governance to do so, the auditor may carry out one or more of the following actions:
- (a) Communicate that matter(s) in an Other Matter(s) paragraph in the auditor's report in accordance with ISA 706;¹⁰
 - (b) Disclaim the audit opinion on the financial statements when the matter(s) raises sufficient doubt about the integrity of management and those charged with governance, such that this may have an effect on the reliability of the other information and audit evidence in general; or
 - (c) Withdraw from the engagement, where withdrawal is possible under the applicable law or regulation.

The auditor's decision would depend on the extent to which the matter(s) could reasonably be expected to influence the economic decisions of the intended users taken on the basis of the audited financial statements and the other information as a whole and the auditor's understanding of the reason(s) for not making the correction. **[See paragraph 18 in Agenda Item 11-B.]**

24. Where the other information is obtained after the date of auditor's report, the Task Force felt that, if the entity issues the other information prior to making the correction despite the auditor having requested both management and those charged with governance to do so, the auditor should be required to take appropriate action giving consideration to the auditor's legal rights and obligations.
25. The Task Force noted that such circumstances may reflect adversely on the integrity and honesty of management and those charged with governance. Accordingly, there may be implications for the auditor's decision to continue to be associated with the entity. The auditor would typically seek legal advice in such circumstances to decide on the appropriate course of action, which may include, for example, communicating the matter to the regulator or relevant professional body or through other public disclosures if required by law or regulation, or discontinuing its relationship with the entity. **[See paragraphs 20 and A36 in Agenda Item 11-B.]**

¹⁰ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

Matter for IAASB's Consideration

5. The IAASB is asked whether it agrees with the Task Force's proposals regarding the auditor's responsibilities if the other information contains matter(s) that is inconsistent with the auditor's understanding of the entity and its environment acquired during the course of the audit (see paragraphs 21–25).

D. Documents Containing Audited Financial Statements and the Auditor's Report Thereon

26. The September 2011 version of draft revised ISA 720 described key features of documents that are intended to be within the scope of the revised ISA as follows:

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
 - b. Is prepared to accompany the initial release of the audited financial statements, typically annually, 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) Intended users. Same as the intended users of the audited financial statements.

27. The IAASB noted that the description of documents that contain the audited financial statements and the auditor's report thereon did not accurately reflect the intention that only an entity's initial release of the financial statements and auditor's report are intended to be in the scope of proposed revised ISA 720. The IAASB asked the Task Force to revise the description accordingly, suggesting that the Task Force consider incorporating a criterion on the timing of availability of such documents to appropriately scope the ISA.

Task Force Recommendations

28. The Task Force is in agreement and proposes the following revised description to appropriately define the scope of draft revised ISA 720: **[See paragraph 7 in Agenda Item 11-B.]**

A document is within the scope of this ISA only if it is prepared and issued by the entity, typically annually, as part of the initial release of the audited financial statements and the auditor's report thereon and displays all of the following key features: (Ref: Para. A10–A17)

- (a) Nature and purpose. Either:
 - (i) Contains audited financial statements and the auditor's report thereon; or
 - (ii) Accompanies the audited financial statements and the auditor's report thereon, and its primary purpose is to provide commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process.
- (b) Intended users. Same as the intended users of the audited financial statements.

29. The Task Force proposes further application guidance in support of this description. The Task Force suggests clarifying that the initial release of audited financial statements and the

auditor's report thereon refers to the initial release for a reporting period to the intended users. The entity may release the audited financial statements and the auditor's report thereon, for example, at the annual shareholders meeting, or by filing the documents with regulatory authorities, a local stock exchange or an official public repository. In some cases, audited financial statements and the auditor's report thereon may also be subsequently distributed together with other information for example, in loan agreements and tender documents. The frequency, timing and manner of such subsequent distributions vary across entities depending on circumstances. The Task Force believes it is important to clearly indicate that such documents are not intended to be within the scope of draft revised ISA 720. **[See paragraphs A11–A12 in Agenda Item 11-B.]**

Other Scope-Related Considerations

30. Paragraph 1 reports that, in September 2011, the IAASB considered two options for scoping draft revised ISA 720 in relation to documents accompanying audited financial statements and the auditor's report. IAASB members expressed overwhelming support for extending the scope of the ISA only to those documents that have a primary purpose of providing commentary to enhance users' understanding of the audited financial statements and the financial reporting process. The IAASB agreed that it is appropriate to focus the scope of draft revised ISA 720 on such documents because they are directly related to the purpose of the financial statement audit. The option was also favored because it supports the notion that clarity in scope and certainty in the minds of auditors are critical to the practical application of the standard. The Task Force accepts the IAASB's comments and accordingly proposes a revised description of the scope of the ISA as described in paragraph 26 above (also see paragraph 31 below).
31. One Task Force member continues to feel strongly that this narrowly restricts the scope of the ISA in relation to "accompanying" documents. Since the same information could be included in a "containing" document in one jurisdiction but in an "accompanying" document in another, this could lead to inconsistent application of the ISA without alignment of the auditor's procedures in both cases. This member is of the view that, if the rationale for these scope limitations is because the auditor's knowledge of the subject matter of the excluded documents is inadequate to make the read and consider responsibility under ISA 720 meaningful in relation to the information they contain,¹¹ or there is a risk that intended users may derive an inappropriately high level of confidence in the other information from knowledge of the auditor's procedures, these concerns apply similarly in both types of documents. In September 2001, the IAASB considered an alternative option that included a mechanism for excluding a document from the scope of the ISA if its subject matter was outside the auditor's understanding of the entity and its environment.¹²

¹¹ The responsibility under ISA 720 is a "derivative" one – based solely on the auditor's knowledge acquired during the course of the audit – rather than one of "assurance."

¹² See footnote 2.

Matters for IAASB's Consideration

6. Noting the comments in paragraph 31 above, the IAASB is asked whether it agrees with the proposed description of documents that are within the scope of draft revised ISA 720 (see paragraph 28).
 - If so, does the IAASB agree with the proposed supporting guidance (see paragraph 29)?

E. Obtaining Other Information

32. In September 2011, the IAASB noted that the requirement for the auditor to make appropriate arrangements with management to obtain documents that are within the scope of proposed revised ISA 720 still requires clarification. In particular, it questioned whether there is an implied obligation on auditors to obtain the documents that are within the scope of the ISA prior to the date of the auditor's report and, if so, whether this has any implications for the terms of the audit engagement.

Task Force Recommendations

33. The Task Force has considered the IAASB's comments and maintains its view that, given differences in corporate reporting requirements across jurisdictions and for different types of entities, it would not be practicable to require auditors to obtain documents that are within the scope of ISA 720 prior to the date of the auditor's report. In many instances, auditors simply do not have the ability to compel entities to provide the relevant documents. Circumstances may be such that entities may have specific reporting timelines for the financial statements but may not be obliged under law or regulation to produce the other information by those same timelines, and therefore may only prepare the other information after finalization of the financial statements.
34. Notwithstanding this, the Task Force accepts that auditors should, as a matter of best practice, discuss with management the importance of obtaining the other information prior to the date of the auditor's report and, if it is not possible to do so, of obtaining the other information as soon as practicable and, in any case, prior to the issuance of such information. Auditors should also discuss with management that the implications of identifying material inconsistencies in the other information after the date of the auditor's report are much more challenging to resolve. The Task Force proposes revisions to draft revised ISA 720 accordingly. **[See paragraph 9 in Agenda Item 11-B.]**

Matter for IAASB's Consideration

7. The IAASB is asked whether it agrees with the Task Force's proposals relating to the auditor's responsibility when making appropriate arrangements with management to obtain documents that are within the scope of draft revised ISA 720 (see paragraph 34).

F. Other Matters

35. In September 2011, the IAASB highlighted a number of other areas in draft revised ISA 720 that could be further clarified. These and the Task Force's proposals in response are described below:

- (a) *Establishing the Auditor's Responsibilities Upfront in ISA 720.* Auditors do not have an obligation to obtain assurance as to the accuracy, reliability or completeness of other information sufficient to express a conclusion thereon. Notwithstanding this, auditors have specific responsibilities relating to such information under ISA 720. In September 2011, a number of IAASB members suggested that clearly stating the purposes of the auditor's procedures under ISA 720 upfront in the ISA would help to establish the context for the ISA and would go towards helping to enhance the clarity of the standard. The Task Force accepts this suggestion and makes recommendations accordingly. **[See paragraph 2 in Agenda Item 11-B.]**
- (b) *Securities Offerings.* It was raised that the rationale for excluding securities offerings from the scope of proposed revised ISA 720 still requires clarification. The Task Force is in agreement and proposes guidance to explain that such documents are not in scope because they are often subject to specific requirements contained in, for example, listing rules and securities statutes that include reporting requirements beyond the audit of the financial statements. Further, ISA 200¹³ states that ISAs do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the offering of securities to the public. **[See paragraph A3 in Agenda Item 11-B.]**
- (c) *Documentation.* The Task Force has reviewed the requirements of ISA 230¹⁴ and proposes the following additional documentation requirement to clarify auditors' responsibilities to document how material inconsistencies have been addressed: **[See paragraph 21 in Agenda Item 11-B.]**
- Where the auditor has identified a material inconsistency in the other information, the auditor shall document how the auditor has addressed the inconsistency.
- Further simplification of the wording of the requirement for the auditor to 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 is also proposed. **[See paragraphs 22 and A38–A39 in Agenda Item 11-B.]**
- (d) *Financial Reporting Process.* It was commented that further guidance is needed on the concept of "financial reporting process" referred to in the definition of key features of documents that are within the scope of draft revised ISA 720 to explain its meaning and application in the context of draft revised ISA 720. The Task Force is in agreement and proposes application material to explain that financial reporting process¹⁵ refers to the process that is used to prepare an entity's financial statements,

¹³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

¹⁴ ISA 230, *Audit Documentation*

¹⁵ As used in the context of the ISAs

which includes matters ranging from internal control to aspects of the entity's governance practices. A cross reference to ISA 315¹⁶ which provides further explanatory guidance in this regard is also felt to be useful. **[See paragraph A14 in Agenda Item 11-B.]**

- (e) *Translation.* While agreeing that the auditor's responsibilities under proposed revised ISA 720 should not extend to translated versions of the documents that are within the scope of the ISA, an IAASB member raised that there may be circumstances where the auditor may be required by law, regulation or terms of contract to perform work on such translated documents. The Task Force accepts this suggestion and proposes guidance accordingly. **[See paragraph A18 in Agenda Item 11-B.]**

Matter for IAASB's Consideration

8. The IAASB is asked whether it agrees with the following proposals:
- Including a description of the purposes of the auditor's procedures under draft revised ISA 720 at the beginning of the standard (see paragraph 35(a));
 - Including guidance to explain the rationale for excluding securities offerings from the scope of draft revised ISA 720 (see paragraph 35(b));
 - Addition and simplification to the wording of proposed documentation requirements (see paragraph 35(c));
 - Including guidance to explain the concept of "financial reporting process" (see paragraph 35(d)); and
 - Including guidance to clarify the auditor's responsibilities when the auditor is required by law, regulation or terms of contract to perform work on the translated versions of documents that are in the scope of draft revised ISA 720 (see paragraph 35(e)).

¹⁶ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*