

Other Information—Issues and IAASB Task Force Proposals

Structure of this Paper

1. This paper is structured as follows:
 - (a) Objective (**Section A** below);
 - (b) Scope of documents covered (**Section B** below);
 - (c) Requirement to Read and Subsequent Work Effort (**Section C** below);
 - (d) Reporting (**Section D** below);
 - (e) Other Matters (**Section E** below)

Significant Issues and Task Force Recommendations

A. Objective

Background

2. At the June 2013 IAASB meeting, a number of members noted that setting the objective of proposed ISA 720 (Revised)¹ was critical to the way forward for the project. In particular, some members noted that it was evident from the comment letters that questions remain about whether ISA 720 should be focused solely on the work effort needed for an audit of financial statements or whether it should be focused on a broader objective related to the other information itself. In other words, is the objective of ISA 720 (Revised) to disassociate the auditor from other information that may cause users to doubt the credibility of the audited financial statements and the auditor's report thereon (i.e., to assist in meeting the professional accountant's responsibilities under the IESBA code²), or is it a broader objective that includes "*promot[ing] a change in auditors' behavior with respect to their responsibilities for the other information in a way that will strengthen their ability to identify that there may be a material inconsistency in the other information and, if so, respond appropriately?*"³

Task Force Response

Discussion

3. The Task Force noted that respondents, overall, supported the IAASB's intention of strengthening the auditor's responsibilities with respect to other information. There was also general support for

¹ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

² International Ethics Standards Board for Accountants (IESBA), *Code of Ethics for Professional Accountants*. Paragraph 110.2 which states "A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information: (a) Contains a materially false or misleading statement; (b) Contains statements or information furnished recklessly; or (c) Omits or obscures information required to be included where such omission or obscurity would be misleading. When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

³ Explanatory Memorandum to Exposure Draft of proposed 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* (ED-720)

the IAASB exploring changes to broaden the scope of the documents covered by ISA 720, broaden the responsibilities of the auditor to consider inconsistencies with their knowledge based on the audit (not just inconsistencies with the financial statements), and increase the transparency of the auditor's work on other information via the auditor's report.

4. In light of this broad support for a revised ISA 720 that continues to be relevant in light of the changing landscape of corporate reporting, the Task Force believes that proposed ISA 720 (Revised) must do more than just address the work effort needed to disassociate the auditor from other information to assist in meeting the auditor's obligation under the IESBA code to avoid being knowingly associate with materially false or misleading statements, statements furnished recklessly or that omit or obscure necessary information. The Task Force notes that the demand for, and content of, other information has changed since the issuance of extant ISA 720 and that the recent U.S. Public Company Accounting Oversight Board (PCAOB) proposal⁴ on other information is not based on avoiding association.
5. The Task Force also notes that investors and other users, who were the strongest supporters of ED-720, seek information on the auditor's work in relation to other information and views on the integrity of the other information.⁵ Failing to meet investors' expectations in this regard risks giving the perception that ISA audits are not adapting to meet changing circumstances.
6. Accordingly, the Task Force also agrees with respondents⁶ who supported ISA 720 "raising the bar" with respect to other information. Thus, proposed ISA 720 (Revised) is intended to be a change in focus from extant ISA 720 which results in an increase in the auditor's responsibilities with respect to other information, but does not go so far as providing assurance on the other information. The Task Force also believes that proposed ISA 720 (Revised) clarifies the objectives of the standard and is aligned with the underlying intent of extant ISA 720. It should also reduce the variation in practice that may have been occurring under extant ISA 720 by strengthening and expanding on the requirements that are present in extant ISA 720. These improvements help ensure that ISAs continue to be relevant in a changing environment of other information.

Proposal

7. The Task Force has made the following changes to the objective (see paragraphs 8 and 8A of **Agenda Item 6-B**):
 - (a) Reframing the objective to clarify that the auditor reads the other information based on the auditor's understanding of the entity and its environment acquired during the course of the audit; to be able to respond appropriately when the auditor identifies that there may be:

⁴ pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf

⁵ For example, a respondent (ACCA) noted that ED-720 was a "timely recognition of the shifts in corporate reporting towards, for example qualitative disclosures, and the calls, particularly from investors, for more informative reporting by auditors." Another respondent (EYG) highlighted that "users have greater interest in, and are placing more importance on, other information, which varies in terms of nature and extent; therefore, it is in the public interest to consider ISA 720 in context of the current environment". An investor respondent noted "Investors need to have confidence in the integrity of the other information they receive within and outside the Annual Report."

⁶ BCBS, C.Barnard, EUMEDION, HEOS, ICGN, PWC

- A material misstatement in the audited financial statements; thereby refocusing the standard on the consistency with the audited financial statements as demanded by many respondents⁷ or
 - A material misstatement of fact in the other information, using the auditor's knowledge of the entity acquired during the audit to add value to its reading. In this way, ISA 720 will both assist the auditor in disassociating from other information that is, or may be, misleading, but also may help increase the quality of the other information;
- (b) Strengthening the links between the objective of ISA 720 and the auditor's ethical obligation to disassociate from other information that may cause users to doubt the credibility of the audited financial statements and the auditor's report thereon (see paragraph 8A of **Agenda Item 6-B**); and
- (c) Further changes to align with the revised requirements in ISA 720 (Revised).

Matter for IAASB Consideration

1. What are the IAASB's views on the proposed objective? Does the objective strike the right balance between the concerns expressed by some IAASB members and the aim of the project to strengthen the auditor's responsibilities with respect to other information?

B. Scope of Documents Covered

Background

8. Some respondents to ED-720, such as investors and public sector auditors, broadly supported the position taken in ED-720 on the scope of documents covered by the ISA.
9. However, regulators⁸ expressed concern about the concept, noting, for example, that it may be difficult to interpret and that it may create incentives for entities *"to structure their reporting to either exclude some other information from the scope of the standard or to time the release of other information so that it is not covered by a statement in the auditor's report"*.⁹ Other regulators supported the concept¹⁰ but noted that it would require considerable auditor judgment in some circumstances and may lead to inconsistent application. In a broad sense, other stakeholder groups such as firms, NSS, and IFAC Member Bodies shared similar concerns about the proposed scope. For a full discussion of the comments received on ED-720 in this regard, please refer to the Agenda Item 5-A of the June 2013 IAASB meeting papers.
10. At the June 2013 IAASB meeting, the IAASB broadly supported focusing the definition of other information on the annual report or similar documents as a way of more clearly delineating the boundaries of other information. However, some members questioned aspects of the Task Force's proposal, noting that the annual report may be available only several months after the publication of the financial statements, that the definition may capture documents issued without the auditor's

⁷ ACCA, AUASB, BT, CNCC/CSOEC, EYG, IDW, KI, PWC, WPK

⁸ BCBS, IRBA

⁹ IOSCO

¹⁰ IAIS, UKFRC

knowledge some months after the financial statements, and the definition of other information should be principles-based, and not rely on a specific example such as an annual report that may be difficult to apply in all jurisdictions.

11. The IAASB also discussed the treatment of documents that the auditor agrees with management should be other information. Some members believed that such documents should be the subject of a separate engagement as they are outside the scope of a financial statement audit. The IAASB also agreed that securities offering documents should be excluded from other information as such documents are usually covered by national law or regulation.

Task Force Response

12. Recognizing the IAASB's support for other information to be tied to annual reports, the Task Force believes that other information should continue to be linked to "annual reports" as this concept is readily understood in most jurisdictions and can thus be easily interpreted by practitioners, users and regulators alike. Accordingly, the Task Force has also refined the definition of "annual report" and continued to anchor the definition of other information on annual reports, and other documents that contain information similar to an annual report:

Annual Report - A comprehensive report prepared by management and/or those charged with governance on an entity's developments, financial results, and financial position. Annual reports are intended to provide owners (or similar stakeholders) with information about these matters, and any other matters required by law or regulation, or included by custom in the entity's jurisdiction. Annual reports comprise various elements, and often include commentary on the entity's operations and finances; a statement by the chair of the governing body; and reports covering corporate governance matters (for example, executive compensation).

13. Further the Task Force has revised the definition of "other information" as follows:

Other information – Financial and non-financial information (other than audited financial statements and the auditor's report thereon) included in

- (i) *An annual report that contains the financial statements and the auditor's report thereon; and*
 - (ii) *A document(s) that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains or is intended to be read in conjunction with the financial statements and the auditor's report thereon.*
14. The revised definition of other information continues to focus on annual reports (see paragraph 15 below), and:
 - (a) Is not restricted to just annual reports as the definition of other information includes "or other document that contains information similar to that typically contained in an annual report, that is issued or made available to owners (or similar stakeholders), and that contains, or is intended to be read in conjunction with, the financial statements and the auditor's report thereon." The Task Force believes that including such additional documents avoids narrowing the scope of ISA 720 (Revised) and is necessary to allow for consistent scoping of documents given the broad range of public reporting regimes around the world – for example

where information that is within in the definition of an annual report is provided in a separate but related document in a particular jurisdiction.

- (b) Removes the term “accompanies” that, although supported by many respondents, some respondents found impractical to apply; and
- (c) Removes the consideration that the auditor and the entity could agree to include within the scope of ISA 720 a document that is not other information.

Further, the definition of “annual report” has been rationalized and compared against various corporate law regimes to provide a firm foundation for the definition.

15. The Task Force also clarified the application of these definitions via new or revised application material that:

- (a) Annual reports may include documents prepared for shorter or longer periods than one year (See paragraph A1A of **Agenda Item 6-B**). Not for profit and public sector entities have stakeholders such as donors, legislatures and funding bodies who have information needs similar to owners (See paragraph A1B of **Agenda Item 6-B**).
- (b) The auditor has no responsibility regarding the documents within the scope of this ISA posted to a website or for any subsequent changes that may be made to such documents (See paragraph A8 of **Agenda Item 6-B**). The Task Force acknowledges that some may wish for a more comprehensive responsibility with respect to entities’ websites and the documents thereon. However, the Task Force notes that websites are outside of the auditor’s control making any obligation with respect to entities’ websites ineffective. Mandating a comprehensive responsibility with respect to any and all other information on websites may also be seen as imposing an open-ended obligation as the other information would be difficult to circumscribe and may remain on the website for an indeterminate period of time.
- (c) Clarifies that integrated reports may be within scope if the integrated report contains information similar to that typically contained in an annual report, is provided to owners (or similar stakeholders) and is intended to be associated with the financial statements and the auditor’s report thereon (See paragraph A11 of **Agenda Item 6-B**).
- (d) Clarifies that ISA 720 does not apply to securities offering documents (see paragraph 3 of **Agenda Item 6-B**) as agreed at the June 2013 IAASB meeting.

Matter for IAASB Consideration

2. Does the IAASB support the revised definitions of “other information” and “annual report”?

C. Requirement to Read and Subsequent Work Effort

Background

16. At the June 2013 IAASB meeting, the IAASB commented on the revised work effort requirements and, in general, made the observations that:

- (a) Separating the “read” and “consider” requirements had improved clarity;
- (b) The auditor’s work effort required by the standard would be more than that implied by the term “misstatements of fact” which suggests that term may not be fit for purpose; and

- (c) The auditor should apply all their knowledge to the other information, not just the understanding gained during the course of the audit.

Task Force Response

17. The Task Force has restructured the key requirement to read the other information so that it better explains the expected work effort and is capable of consistent interpretation. Paragraphs 11 and 11A of **Agenda Item 6-B** now state:

11. *The auditor shall, based on the auditor's understanding of the entity and its environment acquired during the course of the audit, read the other information. In reading the other information, the auditor shall consider whether there may be:*

- (a) *An inconsistency between the other information and the audited financial statements that may indicate the existence of a material misstatement in the audited financial statements; or*
- (b) *A material misstatement of fact in the other information.*

11A. *In fulfilling the requirement of paragraph 11, the auditor shall determine the nature and extent of procedures that, in the auditor's professional judgment, are necessary in the circumstances and perform those procedures.*

18. The Task Force believes that these requirements better link the auditor's work effort to the auditor's understanding of the entity and its environment. The Task Force also notes:

- (a) The term "in light of," that caused some respondents¹¹ difficulty, has been replaced with "based on" which is easier to understand and translate.
- (b) The term "consider" is the correct term to use for the work effort required by proposed ISA 720 (Revised). The Task Force notes that "consider" is being used to mean "reflect upon" and, importantly, is backed up by new paragraph 11A of **Agenda Item 6-B** which requires the auditor to determine the nature and extent of procedures that, in the practitioner's judgment, are necessary in the circumstances with application material (paragraphs A31A-B of Agenda Item 6-C) to outline relevant considerations that may be applicable.
- (c) The use of the term "...may be an inconsistency... or a material misstatement of fact ..." in paragraph 11 indicates that the auditor is reading for the purpose of detecting apparent inconsistencies or material misstatements of fact. This is a clearer signal of the expected work effort in the requirements than ED-720 which only stated "read and consider" and gave further instruction via the application material – which was criticized by respondents as creating hidden requirements in the application material.
- (d) Respondents¹² to ED-720 criticized the definition of "inconsistency in the other information" as they noted that it was directed only at the other information, rather than at a comparison between the other information and the audited financial statements as would be understood from the ordinary meaning of the term. Accordingly, paragraph 11(a) of **Agenda Item 6-B** has been crafted to set up a simpler and more common meaning of "inconsistency" that is more

¹¹ BT, DTT, FEE, IDW, NYSSCPA

¹² See, for example, ICAA, ICAEW, KPMG

practical than ED-720. An “inconsistency” is between the other information and the audited financial statements – and may indicate the existence of a material misstatement in the audited financial statements.

- (e) Paragraph 11A of **Agenda Item 6-B** includes the important requirement to determine the nature and extent of procedures that, in the practitioner’s judgment, are necessary in the circumstances.
- Paragraph 11A of **Agenda Item 6-B** states that the auditor determines the nature and extent of procedures using professional judgment. Respondents broadly did not support¹³ the approach taken in ED-720 to break the other information up into categories¹⁴. The major concerns highlighted were that:
 - The work effort was too subjective;¹⁵
 - The work effort and categorization of other information was inappropriate, inefficient, or excessive;¹⁶
 - The application material favored one methodology over alternative approaches;¹⁷ and
 - The work effort suggested by the application material went beyond that implied by “read and consider”.¹⁸

The Task Force agrees with the concerns expressed and highlights that, given the wide variety of other information around the world, the determination of procedures to be performed, if any, needs to be flexible and responsive to the engagement circumstances. The Task Force also noted comments from respondents¹⁹ that the way the illustrative procedures were presented suggested that the auditor needed to perform all the procedures listed in the application material. Accordingly, the categorization of other information has been removed, together with the detailed guidance on procedures (see Appendix 2 of **Agenda Item 6-B**).

19. The Task Force also notes that the term “misstatement of fact” may be seen as inappropriate, given that the definition of material misstatement of fact includes “...when the other information is incorrectly stated or, in the auditor’s professional judgment, is inappropriately presented or

¹³ Respondents that supported the categorization of other information proposed in ED-720 included ACAG, AGNZ, ASSIREVI, BDO, BT, CBarnard, CNCC/CSOEC, CPAB, DJuvenal, DTT, FRC, GAO, GTI, HEOS, ICAP, ICAS, ICPAS, IOSCO, IRBA, KI, NYSSCPA, NZAUASB, RCA, SAICA, Swedish NAO, WAO, WK, ZICA. Respondents opposed included ACCA, AICPA, ANOORALI, AUASB, BDO, BT, CAASB, EAIG, EFAA, EYG, FAR, FEE, HKICPA, HQ, IBRACON, IDW, IPAR, IRE-IBR, JICPA, KPMG, MAOB, PWC, RSM, WPK

¹⁴ The categories listed in A37 of ED-720 were quantitative financial information that is intended to be the same as information in the audited financial statements, qualitative financial information intended to convey the same meaning as qualitative disclosures in the audited financial statements, directly reconcilable financial information, and remaining other information.

¹⁵ ASSIREVI, BDO, HKICPA, HQ, IOSCO, JICPA, MAOB, NBA, NZAUASB, PWC, RSM

¹⁶ ACCA, CAASB, EYG, FAR, FEE, IBRACON, KPMG, FEE, WPK RSM

¹⁷ ACCA, EFAA, FEE, GTI, HKICPA, IDW, IRE-IBR, KPMG, NYSSCPA, WPK

¹⁸ ASSIREVI, IBRACON, IDW, KPMG, NBA, PWC

¹⁹ BDO, GT, HKICPA, ICAEW, NYSSCPA, PWC

otherwise misleading (for example, because it omits or obscures information necessary for a proper understanding of a matter)” (see paragraph 9(a) of **Agenda Item 6-B**). The Task Force has continued to use the term but is open to proposals from the Board on a possible alternative term.

Matters for IAASB Consideration

3. What views does the IAASB have on paragraphs 11 and 11A of **Agenda Item 6-B**? Are the paragraphs clear and set up the work effort that is reflected in the reporting requirement (see section D below)?
4. Are there alternatives to the term “misstatement of fact” which would better encapsulate the definition?

D. Reporting

Background

20. ED-720 asked respondents if they believe that the terminology (in particular, “read and consider,” “in light of our understanding of the entity and its environment acquired during our audit,” and “material inconsistencies”) used in the statement to be included in the auditor’s report under the proposed ISA is clear and understandable for users of the auditor’s report.
21. A majority²⁰ of respondents did not support the use of these terms in the statement to be included in the auditor’s report. Many of the concerns mirrored the concerns that terms used in the requirements, such as “read and consider” and “inconsistency,” would confuse users and auditors alike. Some²¹ commentators also believed that these terms would increase the expectations gap, while others²² believed that the terminology in the statement was too technical for users to fully understand.
22. ED-720 also asked if respondents believe it is clear that the conclusion that states “no audit opinion or review conclusion” properly conveys that there is no assurance being expressed with respect to the other information.
23. Respondents’ views on this statement were mixed.²³ The major area of concern was that the statement on other information included in ED-720 (“We have not identified material inconsistencies in the other information”) may nevertheless be taken as assurance, particularly given that the form of the statement may be viewed as being similar to a limited assurance conclusion.²⁴

²⁰ ACCA, AGNZ, AICPA, ANOORALI, ASSIREVI, AUASB, BCBS, BDO, BT, CAASB, CACR, CIPFA, EYG, FAR, FRC, GTI, HEOS, HKICPA, HQ, ICAA, ICAEW, ICAP, ICAS, ICPAS, IDW, IPAR, IRBA, IRE-IBR, JICPA, MAOB, MIA (Malaysia), MNP, NAO, NBA, NYSSCPA, NZAUASB, PWC, RSM, SAICA, WPK

²¹ AGNZ, CAASB, EYG, HKICPA, ICPAS, IOSCO, KI, MNP, NZAUASB, WPK

²² ACCA, AGNZ, ASSIREVI, FRC, IRE-IBR

²³ Supporters of the statement included AAA, CBarnard, DJuvenal, EUMEDION, GAO, IAIS, ICGN, IDW, IPAR, IRE-IBR, KI, MAOB, NZAUASB, Swedish NAO, IBRACON. Respondents expressing concern included ACAG, ACCA, ANOORALI, ASSIREVI, AUASB, BDO, BT, CAASB, CACR, DTT, EFAA, FAR, FEE, GTI, HQ, ICAA, ICAEW, ICPAS, IRBA, JICPA, KPMG, MNP, NAO, NBA, NYSSCPA, PWC, RCA, RSM, SAICA, WAO, ZICA

²⁴ AUASB, BDO, BT, CAASB, CACR, CPAB, DTT, FEE, GTI, HKICPA, HQ, IBRACON, ICAA, ICAEW, IRBA, MNP, NAO, NYSSCPA, PWC, RSM, SAICA, WAO

Respondents²⁵ also noted that the statement on other information should reference management's responsibilities for the preparation of the other information. Some²⁶ respondents preferred that the reporting be done by exception, that is, that the auditor should only include the statement in the auditor's report if the statement would draw attention to a material inconsistency in the other information.

Task Force Response

24. The Task Force has considered the proposed statement to be included in the auditor's report.²⁷ In drafting this statement, the Task Force focused on:

- Reporting by exception to avoid the risk of confusion with an assurance engagement that could have been implied by the statement in ED-720 ("We have not identified material inconsistencies in the other information") when the auditor has not identified any uncorrected material misstatements of fact; and
- Using a form of statement that is clearly different to any form of assurance conclusion in IAASB literature ("We have nothing to report in this regard.")

25. Paragraph A57 of Agenda Item 6-C now states:

Other Information

As part of our audit, we have read the following [document(s)/other information] available at the date of our auditor's report:

- *[Provide an appropriate reference to the other information, for example, specifying the document name and, if necessary, the relevant sections of the document (e.g., Chair's Statement) to make clear to users that the audited financial statements and the auditor's report thereon are excluded]*

We have a responsibility to read this [document(s)/other information]²⁸ based on our understanding of the entity and its environment acquired during the course of the audit. When reading this [document/other information], we consider whether there is an inconsistency between this [document(s) /other information] and the audited financial statements that may indicate the existence of a material misstatement in the audited financial statements, or whether there is a material misstatement of fact in this [document(s)/other information].

We also have a responsibility to report if we determine that such a material misstatement of fact exists in this [document(s)/other information] and it is not corrected. We have nothing to report in this regard.

However, we have not audited or reviewed this [document(s)/other information] and accordingly do not express an audit opinion or a review conclusion on it.

²⁵ FAR, GTI, HKICPA, IAIS, ICAA, KPMG, RSM, CPAB

²⁶ ASSIREVI, HKICPA, ICAA, KPMG, WK

²⁷ The *Reporting on Audited Financial Statements* ED (www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international) included a place holder for the statement on other information arising from ISA 720.

²⁸ It may be helpful to use a commonly understood term, such as "annual report" where such a term is appropriate given the composition of the other information.

26. Appendix 2 illustrates how this statement may appear in the context of the full revised auditor's reports in proposed ISA 700 (Revised).
27. The Task Force has also made improvements and clarifications elsewhere in the ISA to provide a more practical reporting framework. The reporting framework operates as follows:
- (a) If the auditor identifies a material misstatement of fact in the other information, the auditor discusses the matter with management and performs other procedures, if necessary, to determine whether a material misstatement of fact does exist. (See paragraph 12 of **Agenda Item 6-B**)
 - (b) The auditor requests management to correct the other information (See paragraph 13(a) of **Agenda Item 6-B**). If management agrees, then the statement in the auditor's report is unmodified.
 - (c) If management does not agree, then the auditor communicates the matter with those charged with governance. (See paragraph 13(b) of **Agenda Item 6-B**)
 - (d) If the other information is still not corrected then:
 - i. When the other information is obtained before the date of the auditor's report, issue a modified statement on the other information. (See paragraph 16(c)(i) of **Agenda Item 6-B**)
 - ii. When the other information is obtained after the date of the auditor's report, the auditor takes appropriate action in accordance with ISA 560,²⁹ taking into account the auditor's legal rights and obligations (see paragraph 14(b) of **Agenda Item 6-B**).

The application material also notes that taking appropriate action requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Appropriate actions include: reissuing the auditor's report to include a modified paragraph as per paragraph 16(c)(i); consider withdrawing from the audit where permitted by law or regulation; or taking advice from the auditor's legal counsel.

28. The Task Force has also drafted new paragraphs to better explain the relationship between ISA 720 and ISA 560. New paragraphs A59A–A59B of **Agenda Item 6-B** explains that ISA 560 includes material regarding actions that the auditor takes when a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, that may have caused the auditor to amend the auditor's report. Accordingly, ISA 560 applies if the auditor determines that there is a material misstatement of fact in the other information that was received after the date of the auditor's report, which would have required a modified statement according to paragraph 16(c)(i) of **Agenda Item 6-B** if the other information had been received before the date of the auditor's report.
29. The Task Force also debated whether the statement should include reference to management's obligations to prepare the other information. As noted above, some respondents supported such a reference, however the Task Force was concerned that such a statement would (a) cause the other information statement to resemble, structurally at least, an assurance report; (b) only state a fact

²⁹ ISA 560, *Subsequent Events*

that is obvious to users; (b) be perceived as overly defensive; and (c) add additional length to the other information statement.

Matter for IAASB Consideration

5. Do members support the other information reporting proposals outline above, including the shift to reporting by exception?

E. Other matters

Obtaining the Other Information

30. Paragraph 10 of ED-720 required that:

10. *The auditor shall:*

- (a) *Discuss with management the nature and timing of the annual report, and other documents that contain information similar to that typically contained in an annual report, and determine which of these other documents are within the scope of this ISA.; and*
- (b) *Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the documents that are within the scope of this ISA.*

31. The Task Force has aligned this paragraph with the revised definition of other information so that it now requires auditors to discuss with management the nature and timing of the annual report, and other documents that contains information similar to that typically contained in an annual report.

Management Representations

32. Some³⁰ respondents believed that ED-720 would benefit from the inclusion of a conforming amendment to ISA 580³¹ to note the importance of obtaining a management representation regarding the other information, given that management are in the best place to know what the entity will issue.
33. The Task Force agrees in substance with this recommendation but does not believe that a requirement is needed. In making this decision, the Task Force noted that a requirement would not be applicable in virtually all circumstances and would not replace the evidence gained from performing necessary procedures. Instead, the Task Force has drafted application material to explain how management representations may be of use when addressing other information. (See paragraph A27A of Agenda Item 6-B)

³⁰ DTT, GT, HKICPA, IRBA

³¹ ISA 580, *Written Representations*

Appendix 1

List of Respondents to the Exposure Draft on ISA 720

#	Abbrev.	Respondent (74)	Region
Investors and Analysts (3)			
1.	ICGN	International Corporate Governance Network	GLOBAL
2.	EUMEDION	Eumedion (Dutch Institutional Investors)	EU
3.	HEOS	Hermes Equity Ownership Services	GLOBAL
Regulators and Oversight Authorities (9)			
4.	BCBS	Basel Committee on Banking Supervision	GLOBAL
5.	CPAB	Canadian Public Accountability Board	NA
6.	EAIG	European Audit Inspection Group (15 European Regulators)	EU
7.	FRC	Financial Reporting Council (UK)	EU
8.	IAIS	International Association of Insurance Supervisors	GLOBAL
9.	ICAC	Ministerio de Economía y Competitividad (Instituto de Contabilidad y Auditoría de Cuentas) [Ministry of Economics and Competitiveness (Institute of Accounting and Audit)]	EU
10.	IOSCO	International Organization of Securities Commissions	GLOBAL
11.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
12.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
Those Charged with Governance (2)			
13.	IIA	Institute of Internal Auditors	GLOBAL
14.	AICD	Australian Institute of Company Directors	AP
National Auditing Standard Setters (5)			
15.	ASB	American Institute of Certified Public Accountants' Auditing Standards Board	NA
16.	AUASB	Australian Auditing and Assurance Standards Board	AP
17.	CAASB	Canadian Auditing and Assurance Standards Board	NA
18.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
19.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Accounting Firms (12)			
20.	BDO	BDO International Limited	GLOBAL
21.	BT	Baker Tilly (UK)	EU

22.	DTT	Deloitte Touche Tohmatsu Limited	GLOBAL
23.	EYG	Ernst & Young Global Limited	GLOBAL
24.	GTI	Grant Thornton International Ltd	GLOBAL
25.	KI	Kreston International	NA
26.	KPMG	KPMG IFRG Limited (Network)	GLOBAL
27.	MNP	MNP LLP – formerly Meyers Norris Penny (Canada)	NA
28.	PP	Pitcher Partners (Australia)	AP
29.	PwC	PricewaterhouseCoopers International Limited	GLOBAL
30.	RSM	RSM International	GLOBAL
31.	WK	Westworth Kemp Consultants (Australia)	AP
Public Sector Organizations (6)			
32.	ACAG	Australasian Council of Auditors-General	AP
33.	AGNZ	Auditor General of New Zealand	AP
34.	GAO	United States Government Accountability Office	NA
35.	NAOUK	National Audit Office (UK)	EU
36.	NAOS	National Audit Office (Sweden)	EU
37.	WAO	Wales Audit Office	EU
Preparers of Financial Statements (1)			
38.	HQ	Hydro Quebec	NA
Member Bodies and Other Professional Organizations (30)			
39.	ACCA	Association of Chartered Certified Accountants	GLOBAL
40.	ASSIREVI	Associazione Italiana Revisori Contabili (Association of the Italian Auditors)	EU
41.	CACR	Chamber of Auditors Czech Republic	EU
42.	CAQ	Center for Audit Quality	NA
43.	CNCC/CSO EC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	EU
44.	CPAA	CPA Australia	AP
45.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
46.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
47.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
48.	FEE	Fédération des Experts comptables Européens - Federation of European Accountants	EU
49.	FSR	Foreningen af Statsautoriserede Revisorer (Danish)	EU

		Institute of Accountants)	
50.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
51.	IBRACON	Instituto dos Auditores Independentes do Brasil	SA
52.	ICAA	Institute of Chartered Accountants in Australia	AP
53.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
54.	ICAP	Institute of Chartered Accountants of Pakistan	AP
55.	ICAS	Institute of Chartered Accountants of Scotland	EU
56.	ICJCE	Instituto de Censores Jurados de Cuentas de España	EU
57.	ICPAS	Institute of Certified Public Accountants of Singapore	AP
58.	IDW	Institut der Wirtschaftspruefer in Deutschland e.V.	EU
59.	IPAR	Institute of Professional Accountants of Russia	EU
60.	IBR-IRE	Institut des Experts-comptables et des Conseils Fiscaux (Instituut Van de Accountants en de Belastingconsulenten) & Instituut van de Bedrijfsrevisoren (Institut des Réviseurs d'Entreprises)	EU
61.	JICPA	Japanese Institute of Certified Public Accountants	AP
62.	MIA	Malta Institute of Accountants	EU
63.	MIA	Malaysian Institute of Accountants	AP
64.	NYSSCPA	New York State Society of Certified Public Accountants	NA
65.	RCA	Russian Collegium of Auditors	EU
66.	SAICA	South African Institute of Chartered Accountants	MEA
67.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
68.	ZICA	Zambia Institute of Chartered Accountants	MEA
Academics (1)			
69.	AAA	American Accounting Association - Auditing Standards Committee of the Auditing Section	NA
Individuals and Others (5)			
70.	ANAli	Altaf Noor Ali	AP
71.	CBarnard	Chris Barnard (Affiliated with ESMA, Germany)	EU
72.	DJuvenal	Denise Juvenal	SA
73.	DScott	Derek Scott (ICAS member)	EU
74.	IG	Insolvency Guardian	AP

Appendix 2

Illustrative Auditors Report Including Statement Regarding Other Information

Note: The illustration below is extracted from the Appendix of Proposed ISA 700 (Revised). The highlighted section is drawn from paragraph A57 of Agenda Item 6-B

Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit conducted in accordance with ISA 600.
- The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards (IFRSs).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Paragraph references below are to the relevant requirements in this ISA.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³²

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

³² The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

The two specific topics and content presented below are purely for illustrative purposes. This section would be tailored to the facts and circumstances of the individual audit engagement and the entity. Accordingly, the IAASB has intentionally drafted these examples in a manner that illustrates that Key Audit Matters will vary in terms of the number and selection of topics addressed and the nature in which they may be described, and importantly are intended to be consistent with the disclosures in the entity's financial statements.

Valuation of Financial Instruments

The Company's disclosures about its structured financial instruments are included in Note 5. The Company's investments in structured financial instruments represent *[x%]* of the total amount of its financial instruments. Because the valuation of the Company's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. The Company has determined it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. We challenged management's rationale for using an entity-specific model, and discussed this with *[those charged with governance]*, and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances. The Company's disclosures about its structured financial instruments are included in Note 5.

Revenue Recognition Relating to Long-Term Contracts

The terms and conditions of the Company's long-term contracts in its *[segment]* affect the revenue that the Company recognizes in a period, and the revenue from such contracts represents a material amount of the Company's total revenue. The process to measure the amount of revenue to recognize in the *[name of industry]*, including the determination of the appropriate timing of recognition, involves significant management judgment. We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and which may be inadvertently unrecorded or deliberately concealed and therefore present a risk of material misstatement due to fraud. In addition to testing the controls the Company has put in place over its process to

enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Company's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Other Information

As part of our audit, we have read the following [document(s)/other information] available at the date of our auditor's report:

[Provide an appropriate reference to the other information, for example, specifying the document name or the relevant sections of the document, e.g., Chair's Statement]

We have a responsibility to read this [document(s)/other information]³³ based on the knowledge acquired during the course of our audit. When reading this [document/other information], we consider whether there is an inconsistency between this [document(s) /other information] and the audited financial statements that may indicate the existence of a material misstatement in the audited financial statements, or whether there is a material misstatement of fact in this [document(s) /other information].

We also have a responsibility to report if we identify such a material misstatement of fact in this [document(s)/other information] and it is not corrected. We have nothing to report in this regard.

Responsibilities of [Management³⁴ and Those Charged with Governance or other appropriate terms] for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs,³⁵ and for such internal control as management determines is necessary to

³³ It may be helpful to use a commonly understood term, such as "annual report" where such a term is appropriate given the composition of the other information.

³⁴ Throughout these illustrative auditor's reports, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

³⁵ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such ..."

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [*Those charged with governance*] are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The shaded material below can be located in an Appendix to the auditor's report (see paragraph 39 of this ISA). When law, regulation or national auditing standards expressly permits, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report (see paragraph 40 of this ISA).

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.³⁶
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide [*those charged with governance*] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

³⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to combine reporting on these matters with reporting as required by the ISAs (shown in the Report on the Audit of the Financial Statements section), with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is *[name]*.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]