

Other Information—Issues and IAASB Task Force Proposals

Introduction

1. At the September 2013 IAASB meeting, it was noted that the project to revise ISA 720 was intended to achieve four objectives:
 - (a) The notion of reading the other information, looking for inconsistencies, through the ‘lens’ of the auditor’s understanding of the entity should be added;
 - (b) There should be a strengthening of the auditor’s work effort and the required work effort needed to be made clear;
 - (c) There should be greater transparency about the auditor’s work in relation to other information through addressing the other information in the auditor’s report; and
 - (d) There should be a revised definition of what constitutes other information to include documents that may accompany rather than contain the audited financial statements and the auditor’s report thereon.
2. Accordingly, this paper is structured as follows:
 - (a) Objectives and Work Effort (**Section A** below);
 - (b) Scope of Documents Covered (**Section B** below);
 - (c) Reporting (**Section C** below);
 - (d) Other Matters (**Section D** below)

Significant Issues and Task Force Recommendations

A. Objectives and Work Effort

Background

3. At the September 2013 IAASB meeting, members discussed the objective and work effort with reference to clarifying and strengthening the work effort on other information by an “intelligent” reading of the other information. The IAASB discussed the merits of reverting to an approach centered on the auditor’s obligation under the IESBA Code to avoid being associated with misleading information. A majority of members did not believe that such an approach would reflect the need for improvements to ISA 720 to meet users’ expectations, supported the revised objective, and resolved to continue with the project in the manner proposed by the Task Force.
4. The IAASB expressed mixed views on whether minimum procedures should be mandated but agreed that the expected work effort should be clear and capable of being operationalized. Some members of the Board, in addition to certain CAG representatives, believed that further consideration should be given to the proposed PCAOB¹ approach. Other members preferred that the ISA only require reading and considering the other information, with any procedures being left to the practitioner’s judgment.

¹ PCAOB Release No. 2013-005 , http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf

5. In redrafting the work effort requirements, the Task Force has considered (i) the use of certain mandated procedures; and (ii) the use of terminology (different from what the Task Force had presented in September) such as “evaluate;” and the use of “relevant audit evidence obtained and conclusions reached” during the audit as the basis for [evaluating/considering] the other information.
6. The flow of the proposed requirements, including the work effort paragraphs, is explained in a flow chart in Appendix 1.

Section A-I: Objectives

7. The Task Force has revised the objectives of ISA 720 (Revised) to reflect the terminology used in the proposed work effort requirements, such as “relevant audit evidence obtained and conclusions reached during the audit” and “material misstatement of the other information” (see section A-II below). It also has been reordered as the Task Force noted that the remainder of the ISAs address material misstatement in the financial statements, and some saw an incongruity in having a standard on other information that appeared to indicate that the primary effect of the “read and evaluate” was a possible material misstatement in the financial statements—rather than a material misstatement of the other information. The proposed objectives are:
 8. The objectives of the auditor, having read the other information taking into account relevant audit evidence obtained and conclusions reached during the course of the audit, are to:
 - (a) Respond appropriately when the auditor identifies:
 - (i) An apparent material misstatement of the other information; or
 - (ii) That there may be a material misstatement in the financial statements; and
 - (b) Report in accordance with this ISA.

Section A-II: Reading and Considering/Evaluating the Other Information

8. In relation to the key work effort paragraphs, the Task Force proposes the following requirements:
 12. The auditor shall read the other information and [evaluate/consider] whether there is an apparent material misstatement of the other information, taking into account relevant audit evidence obtained and conclusions reached during the course of the audit. The auditor shall use professional judgment in determining the nature and extent of procedures that are necessary to take into account such evidence and conclusions .
 13. The procedures performed in fulfilling the requirement in paragraph 12 shall include procedures designed to [evaluate/consider] the consistency of amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the audited financial statements.
9. In respect of these paragraphs, the Task Force notes the following:
 - (a) **Evaluate/Consider:** Further to the comments received from some Board members and CAG representatives, the Task Force discussed using the verb “evaluate” instead of “consider.” The Task Force has not settled on the use of one verb or the other since it considers that the

clarity of the work effort is of the utmost importance, and whatever verb used will need to encapsulate the designated work effort. The Task Force notes that some may perceive “evaluate” as being too strong in light of the work effort we are aiming at, and may be seen as implying that assurance is being obtained. However, the Task Force notes the ordinary meaning of “evaluate” may be seen to carry the right connotation of an active work effort which includes procedures as appropriate... The Task Force also noted that there was merit in using the same verb in both the IAASB and PCAOB literature as it would avoid the risk that users of audit reports infer some difference between the two based on the choice of verb. The Task Force also notes that “evaluate” is defined in the Handbook Glossary² and PCAOB literature³ and while it is not a defined term for the ISAs, the definition is used by translators and is generally how the term is intended to be understood elsewhere in the ISAs. The Task Force does not propose to define the term for the purpose of ISA 720.

The Task Force notes that other verbs or phrases, such as “determine,” “ascertain,” “perform certain limited procedures,” or some other term could also be considered, each of which has its own pros and cons. For example, determine is seen by some to mean “establish exactly,” ascertain can be interpreted as “make sure of,” and “perform certain limited procedures” may be challenging as the need for professional judgment makes it difficult to be specific about the procedures in every case. The Task Force also notes that different verbs could be used at different points in the work effort to signal a change in the work effort expects (such as using “evaluate” for a consistency check but “consider” when dealing with other information that is unrelated to the audited financial statements (see paragraphs 11-13 below for an exposition of how such an approach may work).

- (b) **Material misstatement of the other information:** This replaces the term “misstatement of fact” included in the proposals presented at the September IAASB meeting and the Task Force no longer uses the term “material inconsistency.” The Task Force considered that changing the term would more clearly signal the underlying changes in the definition. A material misstatement of the other information is defined in paragraph 16. The use of the term “material misstatement” is explained further in paragraphs 14–20 below, and the reporting implications are explained in Section C.
- (c) **Relevant audit evidence obtained and conclusions reached during the course of the audit:** The Task Force noted that the PCAOB’s use of the term “relevant audit evidence obtained and conclusions reached during the audit” was a broader concept than “the auditor’s understanding of the entity and its environment” as used in ED-720. As such, The Task Force is now proposing to use the term “relevant audit evidence obtained and conclusions reached during the course of the audit” as it believes that this term has a more natural and less technical meaning than the term “the auditor’s understanding ...” and may therefore be more readily understood by users of the auditor’s report.

² *Evaluate*—Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk. (also see *Assess*)

³ PCAOB Release No. 2013-005 notes that ““Should evaluate” is used in other PCAOB standards when the auditor is expected to come to a conclusion based on the performance of certain procedures.”

- (d) **Professional judgment:** As the range of other information is broad and encompasses many different types of information, the auditor’s professional judgment is needed to determine the most appropriate procedure(s), if any, to undertake the evaluation required by paragraph 12 of Agenda Item 2-B. Further, paragraph 13 of Agenda Item 2-B supplements this with minimum procedures. Further, application material explains that procedures, if any, should be based on the nature of the other information (see paragraph A25 of Agenda Item 2-B).
- (e) **Evaluate the consistency:** Similar to the PCAOB approach, the Task Force proposes to mandate procedures to evaluate the consistency of amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the audited financial statements. This is supported by application material that explains that: (i) not every figure needs to be evaluated for such consistency (see paragraph A27 of Agenda Item 2-B); and (ii) the auditor may find it useful to obtain a reconciliation from management between amounts in the other information and the audited financial statements (see paragraph A28 of Agenda Item 2-B).

Minimum Procedures

- 10. The Task Force notes the IAASB’s views on the whether minimum procedures should be mandated. The Task Force also noted that many CAG representatives supported having minimum procedures, and that the PCAOB’s proposed standard on other information included four minimum procedures.⁴ The Task Force believes that the approach of mandating an “intelligent read” with procedures as appropriate for the circumstances (paragraph 12 of Agenda Item 2-B) and mandating a “consistency check” (paragraph 13 of Agenda Item 2-B) will meet the objectives of those seeking a minimum level of procedures while retaining sufficient flexibility to be adaptable for the wide range of other information that practitioners will encounter in practice.

A Possible Alternative Work Effort

- 11. The Task Force has also briefly considered an alternative approach to more clearly delineate between other information that is related to the audited financial statements and other information that is unrelated to the audited financial statements. This enables the work effort to be more specific than is described above. The key paragraphs of the work effort are as follows:
 - 12. The auditor shall read the other information for the purpose of identifying whether there is an apparent material misstatement of the other information.
 - 13. In fulfilling the requirement in paragraph 12 to identify whether there is an apparent material misstatement of the other information:

⁴ The four minimum procedures in the PCAOB proposal are: Consistency of amounts in the other information, and the manner of their presentation, that are intended to be the same as, or to provide greater detail about, the amounts in the financial statements, with the amounts in the financial statements and relevant audit evidence; b. Consistency of any qualitative statement in the other information, and the manner of its presentation, that is intended to represent or provide greater detail about information in the financial statements, with the financial statements and relevant audit evidence; c. Other information not directly related to the financial statements as compared to relevant audit evidence obtained and conclusions reached during the audit; and d. Amounts in the other information that are calculated using amounts in (1) the other information; (2) the financial statements; or (3) relevant audit evidence, by recalculating the amounts for mathematical accuracy.

- (a) The auditor shall design and perform procedures to evaluate the consistency of amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the audited financial statements. The auditor shall use professional judgment in selecting the amounts or other items in the other information for evaluation of the consistency of the other information with the audited financial statements; and
 - (b) In relation to other information not addressed as part of the procedures in (a), based on reading the other information, the auditor shall consider whether there is an apparent material misstatement in the other information by taking into account relevant audit evidence obtained and conclusions reached during the course of the audit and, as necessary, inquiry of management.
12. In addition to separating “related” other information from “unrelated” other information, the Task Force notes that this approach has the merit of using the terms “evaluate” (see alternative paragraph 13(a) as described in paragraph 11 above) and “consider” (see alternative paragraph 13(b) above) in a natural way. It is also clear that the consistency check in alternative paragraph 13(a) does not need to involve checking the consistency of every amount. Application material (building on what is in A27 of Agenda Item 2-B) would be needed to draw readers attention to this implication, and to explain the factors that may be considered in selecting amounts or items.
13. In relation to “unrelated” other information, alternative paragraph 13(b) above indicates that an “intelligent” reading of the other information and, as necessary, some inquiries of management are the likely the principal procedure that can be performed on such other information. Again, application material would need to be drafted to highlight when an “intelligent read” may go beyond a simple step, such as contacting a component auditor when the other information relates to that component.

“Material Misstatement of the Other Information”

Alternatives considered

14. The Task Force considered a variety of alternatives to the term “material misstatement of fact” that was proposed in the September 2013 IAASB meeting papers, given the proposed changes to the definition discussed in paragraph 9(b) above, and noting that the definition is clearly intended to encompass a broader concept than just factual errors.
15. Terms considered and reasons for rejection included:
- (a) “Misleading presentation”: seen to be limited to matters of presentation, rather than broader factual issues;
 - (b) “Erroneous other information”: some may think that this is limited as compared with the concept of a misstatement as used in relation to the financial statements which includes matters resulting from fraud or error; and
 - (c) “Materially misstated facts or misleading statements”: seen to be too verbose and may be seen to be selectively adopting part but not all of the definition itself.
16. The Task Force believes that the term “material misstatement of the other information” has a natural meaning to auditors that can be understood by analogy to the term ‘material misstatement in the

financial statements', when taken together with the broad criteria encompassed in its definition. The Task Force acknowledges that some may be concerned that this term may be too close to its analogue in the context of the financial statements, especially in the context of auditor reporting. However, the Task Force believes such risk is mitigated by avoiding its use in the auditor's report, as discussed in section C below. It is defined as follows:

A misstatement of the other information exists when the other information is, in the auditor's professional judgment, incorrectly stated, is inappropriately presented, or otherwise misleading (for example, because it omits or obscures information necessary for a proper understanding of a matter). A misstatement of the other information is material if it could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared.

17. Application material has been drafted to highlight that other information is part of the set of information available to a user when reading the audited financial statements. Accordingly, the materiality of a misstatement of the other information may be judged in the context of the overall set of information composed of the audited financial statements and the other information as a whole (see paragraph A6 of Agenda Item 2-B).
18. One Task Force member does not support including the reference to professional judgment in the definition, believing that the need for auditor's professional judgment is already implicitly reflected in all the requirements to apply the definition in the auditor's evaluation and response. This member believes that users would not expect the auditor's professional judgment to be reflected in what constitutes a misstatement and that they would expect a more objective basis for the definition. He believes that, as defined, a misstatement of the other information is what would be judged, objectively, to be "incorrectly stated" but would only be what the auditor, per se, judges to be "inappropriately presented" or "otherwise misleading." If, as a matter of emphasis, a reference to judgment is considered necessary, the member believes that the term "judged to be" could be inserted before "incorrectly stated ..." to read "incorrectly stated or is [judged to be] inappropriately presented or otherwise misleading" so as to retain the objectivity of the definition. Other Task Force members rejected this approach, as they believed that the term "judged to be" left it open as to whose judgment was being exercised.

Consideration of separation of "material inconsistencies" from "material misstatements of the other information"

19. The Task Force believes that users would expect the response of the auditor when there may be a discrepancy in the other information to be the same irrespective of the nature of the underlying issue that led the auditor to detect the potential discrepancy. Accordingly, the Task Force saw little merit in reporting on "material inconsistencies" separate from "material misstatements of facts." Therefore, the work effort in paragraph 14 to 16 of Agenda Item 2-B applies regardless of whether the auditor identified the apparent material misstatement of the other information via paragraph 12 of Agenda Item 2-B (the intelligent read) or paragraph 13 of Agenda Item 2-B (the consistency check).

20. This approach can be contrasted with that adopted in extant ISA 720. The definition of “inconsistency”⁵ in extant ISA 720 would not be broad enough to use in revised ISA 720 as the auditor would not be required to look for other information that, though not inconsistent with information in the audited financial statements, is inconsistent with relevant audit evidence and conclusions reached during the course of the audit.

Section A-III: Responding to an Apparent Material Misstatement of the Other Information

21. Proposed paragraphs 14–16 of Agenda Item 2-B cover the auditor’s actions when responding to an apparent material misstatement in the other information. In summary, paragraph 14 requires the auditor to discuss the matter with management and perform other procedures, if necessary, to determine if a material misstatement does exist. Paragraph 15 covers the required actions if a material misstatement of the other information does exist, which includes requesting management to correct the other information and discussing the matter with those charged with governance if management refuse to correct the other information. Paragraph 16 explains the requirements when the other information is still not corrected after performing these steps, including considering the reporting implications, withdrawing from the engagement, and, if the other information was obtained after the date of the auditor’s report, taking appropriate action under ISA 560.⁶
22. The proposed requirements now incorporate the improvements discussed in Section A-II. Paragraph 15(a) of Agenda Item 2-B also notes that if the other information was received after the date of the auditor’s report, the auditor shall carry out the procedures necessary in the circumstances. New application material, based on paragraph A8 of the extant ISA, notes that this may include reviewing the steps taken by management to inform the individuals in receipt of the previously issued audited financial statements, the auditor’s report thereon, and the other information of the revision (see paragraph A40 of Agenda Item 2-B).

Section A-IV: Responding When There May be a Material Misstatement in the Financial Statements

23. Whilst no changes have been made to paragraph 17 of ISA 720 (Revised) beyond incorporating the improvements discussed in Section A-II, the Task Force has relocated this section to align with the order of the objectives (see section A-I above). In making this change, the Task Force judged that placing it earlier might suggest that it is a more significant requirement than the work effort on the other information, rather than a signpost to the auditor’s responsibilities under other ISAs.

⁵ Paragraph 5(a) of extant ISA 720, “Other information that contradicts information contained in the audited financial statements..”

⁶ ISA 560, *Subsequent Events*

Matters for IAASB Consideration

1. Does the IAASB support the proposed objective and work effort paragraphs (paragraphs 8 and 12-17 of Agenda Item 2-B)? In particular:
 - (a) Does the IAASB prefer “consider,” “evaluate,” or some other verb?
 - (b) Does the IAASB have any views on the alternative work effort presented in paragraph 11 above?
2. Does the IAASB support the definition and use of the term “material misstatement of the other information”? Are there suggestions for an alternative term that would better reflect the definition and could be used in its place?

B. Scope of Documents Covered

Section B-I: Definitions of Other Information and Annual Report

24. Pursuant to the IAASB’s broad support of the focus on annual reports, the Task Force proposes the following revised definition of other information and annual report:

Other information—Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in an entity’s annual report.

Annual report—A document, or combination of documents, prepared on an annual basis by management or those charged with governance in accordance with law or regulation or by custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the audited financial statements. An annual report contains or accompanies the audited financial statements and the auditor’s report thereon and typically includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters. The content of an annual report, and the name by which it is known, may vary by law, regulation or custom across jurisdictions.

25. Under this definition it is clear that, an annual report will usually be a single document, but may be a combination of documents in some circumstances. Application material highlights that determining which documents constitute an annual report, and therefore contain the other information within the scope of the ISA, often may not be a complicated judgment as it will be specified in law or regulation. However, in some cases, the auditor may need to consider a variety of documents which contain or accompany the audited financial statements and the auditor’s report thereon, including a management report, chairman’s statement, corporate governance statement, or internal control and risk assessment report, to determine which of these may collectively comprise the annual report in a particular jurisdiction. In this case, establishing which documents comprise the annual report is likely to be aided by making reference to law, regulation or custom which prescribe the documents that must be provided to owners for the same purpose as proposed ISA 720 (Revised) ascribes to annual reports. The application material gives examples of separate documents that may be part of such a combination of documents comprising the annual report (see paragraph A1 of Agenda Item 2-B).

Section B-II: Application of the Definitions of Other Information and Annual Report to Regulatory Disclosures

26. The application material gives examples of separate reports that are not prepared for the same purpose as an annual report and, as such, are not typically part of the combination of documents that comprise an annual report (unless it is otherwise contained within a document that is part of the annual report) (see paragraph A3 of Agenda Item 2-B).
27. At the September 2013 IAASB meeting, varying views were expressed by some IAASB members on whether a separate report containing banking “Pillar 3” disclosures⁷ should be included within the scope of proposed ISA 720 (Revised). The Task Force noted that this issue also affected other regulatory disclosures such as may be common in the insurance, pension, and extractive industries. To further understand the issue, using the Pillar 3 disclosures as an example, the Task Force reviewed a number of banks’ annual reports and separate Pillar 3 disclosures to understand the degree of overlap between the annual report and the Pillar 3 disclosures and the nature of the information within any separate Pillar 3 disclosures. The Task Force noted that, in some cases, the Pillar 3 disclosures were contained within the annual report and no separate document was issued. In other cases, the annual report contained part of the Pillar 3 disclosures but a separate report contained more detailed information. A list of references is provided in Appendix 2 to enable members to familiarize themselves with the issue.
28. The Task Force reflected upon the comments received on exposure and noted the importance of producing a practical and unambiguous definition of an annual report. The Task Force believes that ISA 720 (Revised) should apply to any information in the annual report, including any Pillar 3 report, and believes that Agenda Item 2-B is clear that this would be within the scope of the ISA.
29. The Task Force noted that, in some cases, the Pillar 3 disclosures were contained within the “annual report,” and no separate Pillar 3 report was issued. In such situations, the Task Force believes that ISA 720 (Revised) should apply to that information, as it would apply to any other information in the annual report.
30. However, when some Pillar 3 disclosures were contained within the annual report, but a larger amount of detailed tables and figures were placed in a separate Pillar 3 report, the Task Force did not believe that the separate document would be part of the annual report. Following this assessment, the Task Force considered how to address such separate documents.
31. The Task Force did not see merit in specifically scoping in Pillar 3 reports when separate from the annual report. In making this decision, the Task Force focused on the fact that in many industries (for example, in the banking, insurance, pension, and extractive industries) specific reports are required for regulatory purposes, or such reports are prepared by custom. The Task Force noted that there was no clear rationale to include the reports from the banking industry while excluding those relevant to other industries. Further, the Task Force was concerned that including regulatory reports for all industries would reintroduce the sort of complexity and lack of clarity of scope that respondents were concerned about in responding to ED-720. The Task Force also notes that this

⁷ Paragraph 814-815 of www.bis.org/publ/bcbs128c.pdf explains that management should use its discretion in determining the appropriate medium and location of the disclosure (including within the financial statements or within a separate document).

would greatly increase the scope of ISA 720 (Revised) beyond what would ordinarily be considered an “annual reports.”

32. The Task Force also noted that many of the responses received on ED-720 related to the lack of clarity around the boundaries of other information. As such, the Task Force did not believe that being silent would be responsive to the calls for clarity, as it would leave this important decision to the judgment of individual auditors, with the risk that inconsistent practice may develop.
33. Accordingly, the Task Force concluded that Pillar 3 reports that are issued separately from the annual report are not typically part of the annual report, and therefore are not covered by ISA 720 (Revised), as they fall within a category of documents that are prepared to meet the information needs of a specific stakeholder group or for a specific regulatory reporting objective (see paragraph A3 of Agenda Item 2-B).

Matters for IAASB Consideration

3. Does the IAASB support the revised definitions of “other information” and “annual report”?
4. Should regulatory reports, such as Pillar 3 reports, be specifically scoped into ISA 720 (Revised)?

C. Reporting

34. The Task Force notes that the IAASB and the CAG broadly supported the Task Force’s proposed illustrative statement for the auditor’s report regarding other information, but that there was continued demand for more plain language. In light of this, the Task Force focused on refining the illustrative material addressing different reporting circumstances (see paragraphs A45, A46, and A49 of Agenda Item 2-B). The illustrative section to include in the auditor’s report when the auditor has not identified a material misstatement of the other information, or when the auditor has identified a material misstatement of the other information which has been corrected, is as follows:

Other Information [or another title if appropriate such as “Information other than the financial statements and auditor’s report thereon”]

The annual report⁸ contains the audited financial statements, this auditor’s report thereon, and other information.⁹

Our responsibility is to read the other information and [evaluate/consider] whether, to a material degree, it is incorrectly stated, inappropriately presented or otherwise misleading. Our [evaluation/consideration] takes into account relevant audit evidence we have obtained and conclusions we have reached in the course of the audit and includes [evaluation/consideration] of the consistency of the other information with the audited financial statements. If we identify that the other information, to a material degree, is incorrectly stated, inappropriately presented or otherwise misleading, we are required to report that fact. We have nothing to report in this regard.

⁸ Use another term if appropriate

⁹ A description of the other information, such as “the management report and chair’s statement,” may assist users in identifying the other information.

However, we have not audited or reviewed the other information and accordingly do not express an audit opinion, review conclusion, or any assurance conclusion on it.

35. The Task Force notes the following with respect to the revisions made:
- (a) **Simplified focus on annual reports:** Rather than a complicated explanation of the possible iterations of how the other information could be made up, the Task Force has focused on the most common example – being where the other information is only a single document known as the annual report. The Task Force believes that this approach will be easier for readers of the ISA to understand yet will permit flexibility for more complex cases.
 - (b) **Reporting focus:** As explained in paragraphs 19–20 above, the Task Force believed that users would be concerned primarily about the auditor’s views on material misstatements of the other information, and less interested in how the auditor arrived at the identification of the material misstatement in the other information. Thus, no distinction is made between material misstatements of the other information that were identified due to a lack of consistency with the audited financial statements and those material misstatements of the other information identified from reading and evaluating the other information, taking into account relevant audit evidence obtained and conclusions reached during the course of the audit.
 - (c) **Explanation of work effort:** The illustrative section is grounded in the work effort requirement by the use of key words from the ISA, such as “read”, “evaluate,” “consistency,” and “relevant audit evidence obtained and conclusions we have reached in the course of the audit.” This provides a strong link between the requirements and the illustrative statement for the auditor’s report.
 - (d) **Plain language:** The Task Force has endeavored to draft the illustrative material in simple terms yet to also provide transparency of the auditor’s work effort regarding the other information. The Task Force notes that a phrase such as “other information...[that is], to a material degree,...incorrectly stated, inappropriately presented or otherwise misleading” may be seen as more natural and less technical and therefore more approachable for a lay reader than a technical term such as “material misstatement of the other information” (for comparison with the ISA 720 (Revised) definition, see paragraph 10(b) of Agenda Item 2-B). It is noted that in some jurisdictions the term “material misstatement of the other information” may be preferred due to it being more established in law or regulation. It is also noted that the illustrative statements are for guidance purposes only, and auditors and national auditing standard setters can choose alternate words that are more meaningful to a particular jurisdiction.
36. The Task Force has also briefly considered an alternative illustrative statement that does not contain a conclusion. In this version, in addition to minor editorials, the penultimate sentence of the original text has been edited to remove the expectation of a conclusion and the “we have nothing to report” statement has been removed:

Other Information [for another title if appropriate such as “Information other than the financial statements and auditor’s report thereon”]

The annual report¹⁰ contains the audited financial statements, this auditor’s report thereon, and other information.¹¹

Our responsibility is to read the other information and [evaluate/consider] whether, to a material degree, it is incorrectly stated, inappropriately presented or otherwise misleading and, if so, report that matter. Our evaluation takes into account relevant audit evidence we have obtained and conclusions we have reached in the course of the audit and includes [evaluation/consideration] of the consistency of the other information with the audited financial statements.

We have not audited or reviewed the other information and accordingly do not express an audit opinion, review conclusion, or any assurance conclusion on it.

37. The Task Force notes that this approach has the merit of being further removed from conveying any assurance – a concern that has been expressed about previous illustrative statements. However, equally, it may be seen as offering less insight into the outcome of auditor’s work.

Reporting When No Other Information Has Been Provided to the Auditor

38. The Task Force debated including a proposed illustrative section for when no other information was provided to the auditor. The Task Force noted that, for some jurisdictions and entities, the reporting deadlines differ for the audited financial statements and the annual report, meaning that the auditor’s report may be issued before the final version of the annual report is available. As such, mandating the inclusion a statement that, for example, “no other information was received by the date of this auditor’s report” may confuse users who may not understand that the later deadline for the annual report in that jurisdictions means that this will be the norm. As such, the Task Force believes it is appropriate to remain silent on the issue.

Matter for IAASB Consideration

5. Does the IAASB support the proposed illustrative section as outlined in paragraph 34 above?
6. What views does the IAASB hold regarding the alternative approach outlined in paragraph 36 above?

D. Other Matters

Section D-I: Multiple or Translated Annual Reports

39. At the September 2013 IAASB meeting, it was noted that an entity may prepare more than one annual report, such as when an entity is listed in more than one jurisdiction or when a jurisdiction has more than one official language. The Task Force has drafted application material that highlights this issue, and notes that the auditor may need to consider which of these “annual reports” comprise the other information. The application material also notes that a translation of the annual

¹⁰ Use another term if appropriate

¹¹ A description of the other information, such as “the management report and chair’s statement,” may assist users in identifying the other information.

report for convenience, rather than pursuant to law or regulation, is not other information as defined in ISA 720 (see paragraph A15 of Agenda Item 2-B).

Section D-II: Documentation

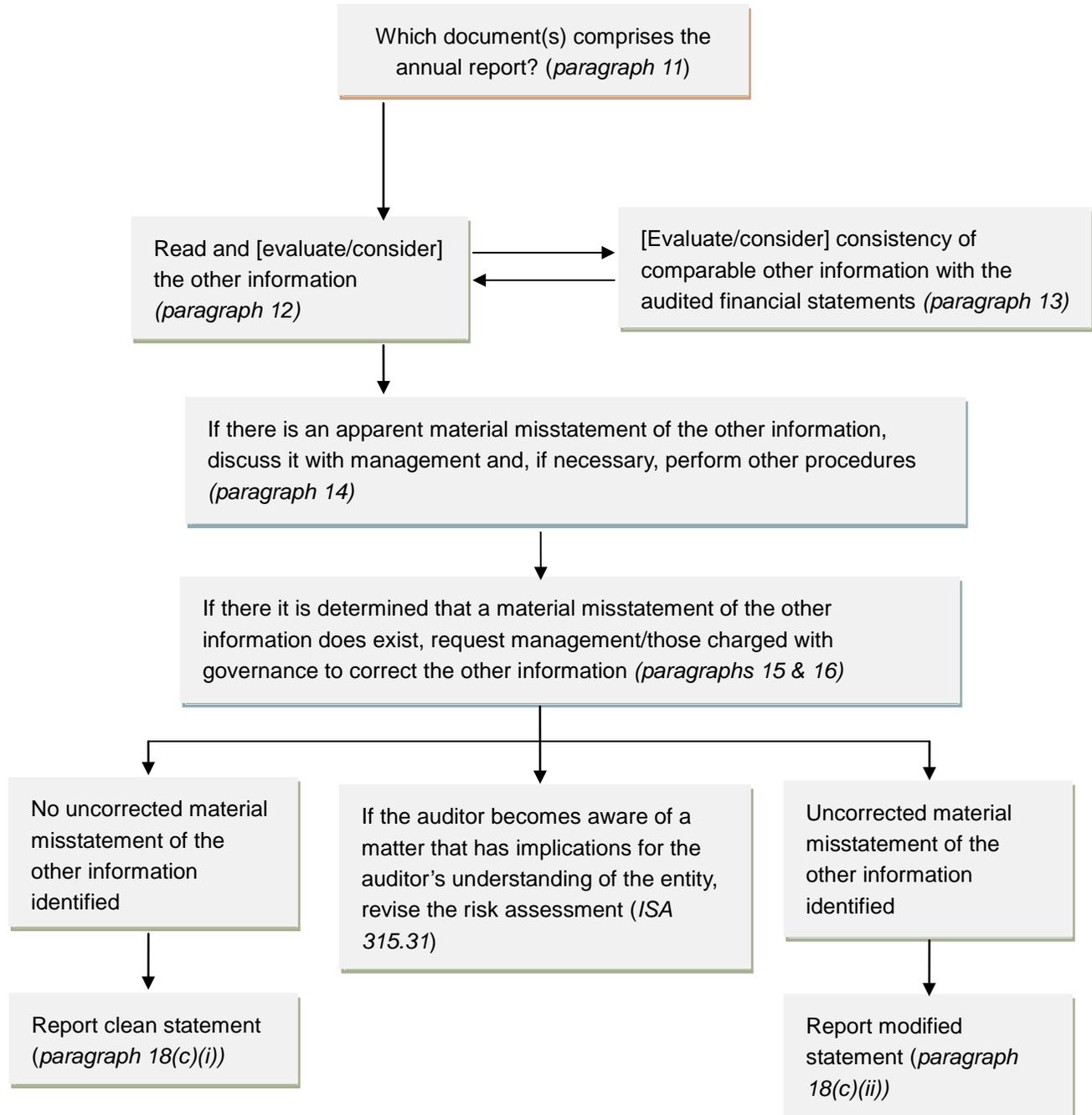
40. The Task Force noted that the documentation requirement could be streamlined to focus only on the distinctive implications of ISA 230¹² for other information. The Task Force determined that the only special documentation requirement needed for ISA 720 (Revised) was to require auditors to retain the final version of the other information (see paragraph 21 of Agenda Item 2-B). Application material explains that, if those charged with governance are to approve the other information, the final version is the version that was approved by those charged with governance (see paragraph A53 of Agenda Item 2-B).

¹² ISA 230, *Audit Documentation*

Appendix 1

FLOW CHART OF REQUIREMENTS

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



At any point in the process, if the auditor identifies that there may be a material misstatement in the financial statements, the auditor shall perform the procedures necessary under the ISAs to determine whether the financial statements are materially misstated (paragraph 17)

REFERENCES FOR PILLAR 3 REPORTS

Basel Committee on Banking Supervision (BCBS): Pillar 3 Disclosures

- Relevant paragraphs begin on page 23 of the following link <http://www.bis.org/publ/bcbs128c.pdf>).

BCBS Comment Letter on ISA 720

- The Basel Committee comment letter on ISA 720 (http://www.ifac.org/sites/default/files/publications/exposure-drafts/comments/BCBS_1.pdf)

Bank Annual Reports and Pillar 3 Reports

Institution	Annual Report	Pillar 3 Report (if separate)
Barclays	http://group.barclays.com/about-barclays/investor-relations/annual-reports	http://group.barclays.com/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadertype=Content-Disposition&blobheadertype=MDT-Type&blobheadertype=inline%3B+filename%3D2012-Barclays-Pillar-3-Disclosures-PDF.pdf&blobheadertype=abinary%3B+charset%3DUTF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1330696635940&ssbinary=true
BNP Paribas	http://media-cms.bnpparibas.com/file/39/5/ddr_2012_gb.29395.pdf	Appears to be included in the Annual Report
HSBC	Click on “Annual Report and Accounts 2012” of HSBC Holdings PLC issued on March 4, 2013 at the link below http://www.hsbc.com/investor-relations/financial-results	Click on the “Capital and Risk Management Pillar 3 Disclosures as at 31 December 2012 – English” HSBC Holdings PLC issued on March 4, 2013 at the link below http://www.hsbc.com/investor-relations/financial-results
ING	http://www.ing.com/Our-Company/Investor-relations/Annual-Reports.htm	Appears to be included in the Annual Report
DBS Group Holdings Ltd	http://www.dbs.com/annualreports/2012/default.htm	Appears to be included in the Annual Report