

## **The Auditor's Responsibilities Relating to Other Information**

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# Introduction

- Four objectives noted at the September 2013 IAASB meeting:
  - The notion of reading the other information, looking for inconsistencies, through the ‘lens’ of the auditor’s understanding of the entity should be added;
  - There should be a strengthening of the auditor’s work effort and the required work effort needed to be made clear;
  - 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
  - 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.

# Topics For Discussion

- Objective and Work Effort
- Scope
- Reporting

# Changes in Terminology

- “Evaluate” / “Consider”
- “Material misstatement of the other information”
- “Relevant audit evidence obtained and conclusions reached during the course of the audit”

# Objectives

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.

## Work Effort

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.

# Alternative Work Effort Paragraphs

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:

- (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

## Alternative Work Effort Paragraphs (continued)

- (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.



# 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 of Agenda Item 2-A?
- 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?

# Scope of Documents Covered

- An annual report will usually be a single document, but may be a combination of documents in some circumstances. Often this will not be a complicated judgment
- In some cases, a variety of documents which contain or accompany the financial statements/auditor's report may be considered - law, regulation or custom may prescribe the documents that must be provided to owners for the same purpose as proposed ISA 720 (Revised) describes for annual reports.

# Scope of Documents Covered

- An annual report is different in nature, purpose and content from a report(s) prepared by the entity for other purposes, for example a report prepared to meet the information needs of a specific stakeholder group or for purposes of compliance with a specific regulatory reporting objective.
- Application material states that documents prepared for other purposes are not typically part of the combination of documents that comprise an annual report (unless contained in an annual report itself)
  - Why? Risks reintroducing complexity and including such documents would greatly increase the scope of ISA 720

# Scope of Documents Covered

- Examples of separate reports that are typically not prepared for the same purpose as an annual report:
  - Separate reports prepared for a regulator, that may be required in the banking, insurance, and pension industries.
  - Corporate social responsibility reports, sustainability reports, diversity and equal opportunity reports etc.

## 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)?

# Reporting

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

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.

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.

# Reporting – Possible Alternative

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

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.

## Matters for IAASB Consideration

- 5) Does the IAASB support the proposed illustrative section as outlined above?
- 6) What views does the IAASB hold regarding the alternative approach outlined above?



IAASB

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# Work Effort – Example of Non-GAAP Performance Measure in Other Information

## Financial Statements (Extract)

...	
Non-Cash Gains	30
Depreciation	(50)
...	
GAAP profit	<u>190</u>

## Annual Report (Extract)

Non-GAAP Performance Measure reconciliation (e.g. *Cash Profit/Underlying profit*)

GAAP Profit	190
Add Depreciation	50
<i>Savings from Restructure</i>	40
Less Non-cash Gains	<u>(30)</u>
Non-GAAP profit	250

## Possible work effort – one or more of the following?

- a) Read the other information?
- b) Check consistency of items between the other information and the financial statements?
- c) Review audit working papers for evidence/conclusions supporting “savings from restructure”?
- d) Inquire of management about “savings from restructure”?
- e) Review management’s process which supports “savings from restructure”?
- f) Perform procedures specially to verify “savings from restructure”?
- g) Reflect on whether the “savings from restructure” is reasonable based on the auditor’s understanding?