

Agenda Item 2-D

COMPARISON OF AGENDA ITEM 2-B WITH THE EXPOSURE DRAFT OF PROPOSED ISA 720 (REVISED), ISSUED NOVEMBER 2012

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
<p>Objectives</p> <p>8. The objectives of the auditor, having read and considered the other information, are to:</p> <p>(a) Respond appropriately when, in light of the auditor's understanding of the entity and its environment acquired during the course of the audit, the auditor identifies that:</p> <p>(i) There may be a material inconsistency in the other information; or</p> <p>(ii) The audited financial statements may be materially misstated; and</p> <p>(b) Report in accordance with this ISA.</p>	<p>Objectives</p> <p>9. The objectives of the auditor, having read the other information, are:</p> <p>(a) To consider, through performing limited procedures, whether there is an apparent material inconsistency between the other information and the financial statements, because such an inconsistency may undermine the credibility of the financial statements and the auditor's report thereon;</p> <p>(b) To consider whether there is an apparent material inconsistency between the other information and the auditor's knowledge gained during the course of the audit;</p> <p>(c) To respond appropriately when the auditor identifies such apparent material inconsistencies, or when the auditor becomes aware that other information is apparently materially incorrectly stated or is otherwise misleading; and</p> <p>(d) To report in accordance with this ISA.</p>
<p>Definitions</p> <p>9. For purposes of the ISAs, the following terms have the meanings attributed below:</p>	<p>Definitions</p> <p>10. For purposes of the ISAs, the following terms have the meanings attributed below:</p>

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
<p>(a) Inconsistency in the other information – An inconsistency in the other information exists when the other information: (Ref: Para. A2–A3)</p> <ul style="list-style-type: none"> (i) Contains information that is incorrect, unreasonable or inappropriate; or (ii) Is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the other information. <p>An inconsistency in 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 taken on the basis of the audited financial statements and the other information as a whole.</p> <p>(b) Initial release – Initial release occurs when the audited financial statements and the auditor’s report thereon for a reporting period are first made generally available to the group of users for whom the auditor’s report is prepared, often the shareholders. (Ref: Para. A4–A6)</p> <p>(c) Other information – Financial and non-financial information (other than audited financial statements and the auditor’s report thereon) included in a document that is issued by the entity in connection with the initial release, and that: (Ref: Para. A7–A9, A14–A21)</p> <ul style="list-style-type: none"> (i) Contains the audited financial statements and the auditor’s report thereon; or (Ref: Para. A10) (ii) Accompanies the audited financial statements and the auditor’s report thereon and has a primary purpose of providing commentary to enhance the users’ 	<p>(a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or 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 financial statements. An annual report contains or accompanies the 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. (Ref: Para. A1–A4)</p> <p>(b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (for example, because it omits or obscures information necessary for a proper understanding of a matter). Misstatements of the other information are material if they could reasonably be expected to influence the economic decisions of users, recognizing that the other information is only part of the overall information available to users. (Ref: Para. A5)</p> <p>(c) Other information – Financial and non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A6–</p>

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
understanding of the audited financial statements or the financial reporting process. (Ref: Para. A11–A13)	A9)
<p>Requirements</p> <p>Obtaining the Other Information</p> <p>10. The auditor shall:</p> <ul style="list-style-type: none"> (a) Discuss with management the nature and timing of the documents that are expected to be issued in connection with the initial release and determine which of them 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. (Ref: Para. A22–A27) 	<p>Requirements</p> <p>Obtaining the Other Information</p> <p>11. The auditor shall:</p> <ul style="list-style-type: none"> (a) Determine, through discussion with management, which document(s) comprises the annual report and the planned timing of the entity’s issuance of such documents; 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 other information. (Ref: Para. A10–A20)
<p>Reading and Considering the Other Information</p> <p>11. The auditor shall read and consider the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit. (Ref: Para. A28–A43)</p>	<p>Reading and Considering the Other Information</p> <p>12. The auditor shall read the other information and shall: (Ref: Para. A21–A22)</p> <ul style="list-style-type: none"> (a) Consider whether there is an apparent material inconsistency between the other information and the financial statements; (Ref: Para. A23–A27) (b) Consider whether there is an apparent material inconsistency between the other information and the auditor’s knowledge gained during the course of the audit; and (Ref: Para. A28–A33)

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
	<p>(c) Remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. (Ref: Para. A34–A35)</p> <p>13. In fulfilling the requirement in paragraph 12(a), the auditor shall perform limited procedures to evaluate the consistency between the 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 financial statements, with such amounts or other items in the financial statements.</p>
<p>Responding When the Auditor Identifies That There May Be a Material Inconsistency in the Other Information</p> <p>12. If, based on reading and considering the other information, the auditor identifies that there may be a material inconsistency in the other information, the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether a material inconsistency in the other information does exist. (Ref: Para. A44–A48)</p> <p>13. If the auditor determines that a material inconsistency in the other information does exist, the auditor shall request management to correct the other information. If management:</p> <p>(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or</p> <p>(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.</p> <p>14. If the other information is not corrected after communicating with</p>	<p>Responding to an Apparent Material Inconsistency or Other Information that is Apparently Materially Incorrectly Stated or Otherwise Misleading</p> <p>14. If the auditor identifies an apparent material inconsistency (or becomes aware of other information that is apparently materially incorrectly stated or otherwise misleading), the auditor shall discuss the matter with management and, if necessary, perform other procedures to determine whether: (Ref: Para. A36–A40, A48)</p> <p>(a) A material misstatement of other information exists;</p> <p>(b) A material misstatement in the financial statements exists; or</p> <p>(c) The auditor’s understanding of the entity and its environment needs to be updated.</p> <p><i>Responding When the Auditor Determines That a Material Misstatement of Other Information Exists</i></p> <p>15. If the auditor determines that a material misstatement of the other information exists, the auditor shall request management to correct</p>

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
<p>those charged with governance, the auditor shall:</p> <p>(a) When the other information was obtained prior to the date of the auditor's report, take appropriate action, including: (Ref: Para. A49–A51)</p> <p>(i) Considering the reporting implications (see paragraph 16(c)); or (Ref: Para. A52)</p> <p>(ii) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation; or (Ref: Para. A53–A54)</p> <p>(b) When the other information was obtained after the date of the auditor's report, take appropriate action in accordance with ISA 560,¹ taking into account the auditor's legal rights and obligations. (Ref: Para. A55–A56)</p> <p>Responding When the Auditor Identifies That the Audited Financial Statements May Be Materially Misstated</p> <p>15. If, based on reading and considering the other information, the auditor identifies information that indicates that the audited financial statements may be materially misstated, the auditor shall perform procedures necessary under the ISAs to determine whether the audited financial statements are materially misstated. (Ref: Para. A49, A55)</p>	<p>the other information. If management:</p> <p>(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or</p> <p>(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.</p> <p>16. If the other information was obtained prior to the date of the auditor's report and is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A41)</p> <p>(a) Considering the implications for the auditor's report (see paragraph 19(c)(ii)); or (Ref: Para. A42)</p> <p>(b) Withdrawing from the engagement, where withdrawal is possible under the applicable law or regulation. (Ref: Para. A43–A44)</p> <p>17. If the other information was obtained after the date of the auditor's report, the auditor shall: (Ref: Para. A41)</p> <p>(a) Carry out the procedures necessary under the circumstances if management agrees to correct the other information; or (Ref: Para. A45)</p> <p>(b) Take appropriate action, taking into account the auditor's legal rights and obligations, if the other information is not corrected after communicating with management and those charged with governance. (Ref: Para. A46–A47)</p>

¹ ISA 560, *Subsequent Events*, paragraphs 10–17

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
	<p><i>Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to be Updated</i></p> <p>18. If, as a result of performing the procedures in paragraphs 12–14, the auditor identifies that there is a material misstatement in the financial statements or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with other ISAs. (Ref: Para. A48)</p>
<p>Reporting</p> <p>16. Where the auditor has obtained the other information prior to the date of the auditor's report, the auditor shall include a statement in the auditor's report comprising the following elements: (Ref: Para. A57–A58)</p> <ul style="list-style-type: none"> (a) A description of the auditor's responsibilities with respect to the other information; (b) Identification of the specific documents that contain the other information that the auditor has read and considered as part of the audit of the financial statements; (Ref: Para. A59) (c) A statement addressing whether, based on reading and considering the other information obtained, the auditor has identified material inconsistencies in the other information, and, if so, a statement describing them; and (d) A statement that the auditor has not audited or reviewed the other information and accordingly does not express an audit opinion or a review conclusion on it. <p>17. When the auditor's opinion on the financial statements is modified,</p>	<p>Reporting</p> <p>19. When the auditor has obtained all or part of the other information prior to the date of the auditor's report, the auditor shall include a statement in the auditor's report comprising the following elements: (Ref: Para. A49)</p> <ul style="list-style-type: none"> (a) Identification of the other information obtained by the auditor before the date of the auditor's report; (b) A description of the auditor's responsibilities with respect to the other information.; (c) A statement: <ul style="list-style-type: none"> (i) If the auditor has not identified a material misstatement in the other information, that the auditor has nothing to report; or (ii) If the auditor has identified a material misstatement in the other information, that describes the material misstatement. (Ref: Para. A50) (d) A statement that the auditor has not audited or reviewed the other information and accordingly does not express any form

Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012	Agenda Item 2-B, Proposed ISA 720 (Revised)
<p>the auditor shall consider the implications of the modification for the statement required in paragraph 16(c). (Ref: Para. A60–A63)</p> <p><i>Reporting Prescribed by Law or Regulation</i></p> <p>18. If the auditor is required by law or regulation of a specific jurisdiction to report with respect to the other information and to use a specific layout or wording in the auditor’s report for this purpose, the auditor’s report shall refer to International Standards on Auditing only if the auditor’s report includes, at a minimum: (Ref: Para. A64)</p> <ul style="list-style-type: none"> (a) A description of the auditor’s responsibilities with respect to the other information; (b) Identification of the documents containing the other information that the auditor has read and considered; and (c) An explicit statement addressing the outcome of the auditor’s work for this purpose. 	<p>of assurance conclusion on it.</p> <p>20. When the auditor’s opinion on the financial statements is modified, the auditor shall consider the implications of the modification for the statement required in paragraph 19(c)(ii). (Ref: Para. A51–A55)</p> <p>21. When the auditor has identified an uncorrected material misstatement of the other information and the auditor expects to modify the statement in the auditor’s report (see paragraph 19(c)(ii)), the auditor shall communicate with those charged with governance the proposed wording of the statement.</p> <p><i>Reporting Prescribed by Law or Regulation</i></p> <p>22. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor’s report using a specific layout or wording, the, the auditor’s report shall refer to International Standards on Auditing only if the auditor’s report includes, at a minimum: (Ref: Para. A56)</p> <ul style="list-style-type: none"> (a) A description of the auditor’s responsibilities with respect to the other information; (b) An identification of the documents containing the other information obtained by the auditor before the date of the auditor’s report; and (c) An explicit statement addressing the outcome of the auditor’s work for this purpose.
<p>Documentation</p> <p>19. When the auditor has identified a material inconsistency in the other</p>	<p>Documentation</p> <p>23. The auditor shall retain in the audit documentation the final version</p>

<p>Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012</p>	<p>Agenda Item 2-B, Proposed ISA 720 (Revised)</p>
<p>information, the auditor shall include in the audit documentation how the auditor has addressed the inconsistency.</p> <p>20. The auditor shall retain in the audit documentation the document(s) on which the auditor has performed the work required under this ISA. (Ref: Para. A65)</p>	<p>of the other information on which the auditor has performed the work required under this ISA. (Ref: Para. A57)</p>
<p>Reporting <i>Illustrative Statements</i> (Ref: Para. 16)</p> <p>Illustrative Statement When the Auditor Has Not Identified Material Inconsistencies in the Other Information</p> <p>A57. The following is an example of the statement that would be included in the auditor’s report when the auditor has not identified a material inconsistency in the other information:</p> <p style="padding-left: 40px;">As part of our audit, it is our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information² in [<i>specify the document(s) containing the other information, e.g., the entity’s annual report for the year ended December 31, 20X1</i>] (“Other Information”) and to report whether we have identified material inconsistencies in the Other Information. We have not identified material inconsistencies in the Other Information. However, we have not audited or reviewed the Other Information and accordingly do not express an audit opinion or a review</p>	<p>Reporting <i>Illustrative Statements</i> (Ref: Para. 19)</p> <p>Illustrative Statement When the Auditor Has Received All or Part of the Other Information by the Date of the Auditor’s Report and Has Not Identified a Material Misstatement of the Other Information</p> <p>A49. The following is an example of a statement in the auditor’s report when the auditor has received all or part of the other information by the date of the auditor’s report and has not identified a material misstatement of the other information, or has identified a material misstatement of the other information which has been corrected:</p> <p style="padding-left: 40px;"><u>Other Information for another title if appropriate such as “Information other than the financial statements and auditor’s report thereon”</u></p> <p style="padding-left: 40px;">The annual report³ contains the financial statements, this auditor’s report thereon, and other information.⁴</p> <p style="padding-left: 40px;">Our responsibility is to read the other information and to consider, through performing limited procedures,</p>

² The auditor may, if considered helpful, clearly identify the specific other information read and considered, e.g., the Chairman’s Statement, the Business Review, etc.

³ Use another term if appropriate.

⁴ A more specific description of the other information, such as “the management report and chair’s statement,” may be used to identify the other information.

<p>Exposure Draft of Proposed ISA 720 (Revised) (ED-720) Issued November 2012</p>	<p>Agenda Item 2-B, Proposed ISA 720 (Revised)</p>
<p>conclusion on it.</p>	<p>whether there is an apparent material inconsistency between the other information and the financial statements. In reading the other information, we also consider whether there is an apparent material inconsistency with our knowledge gained during the course of the audit and remain alert for other indications that the other information is apparently materially incorrectly stated or is otherwise misleading. If we determine that the other information is materially misstated we are required to report that fact. We have nothing to report in this regard.</p> <p>However, we have not audited or reviewed the other information and accordingly do not express any form of assurance conclusion on it.</p>