

PROPOSED INTERNATIONAL STANDARD ON AUDITING 720**(REDRAFTED)****THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN
DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

(Effective for audits of financial statements for periods beginning on or after [date])*

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International Standard on Auditing (ISA) 720 (Redrafted), "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements" should be read in conjunction with [proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing."

* See footnote 1.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the scope of the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. (Ref: Para. A1-A2)
2. In this ISA "documents containing audited financial statements" refers to annual reports (or similar documents) containing audited financial statements and the auditor's report thereon, when such financial statements are first issued to owners (or similar stakeholders) of the entity. (Ref: Para. A3)

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after [date].¹

Objective

4. The objective of the auditor is to respond appropriately when documents containing audited financial statements include other information that could undermine the credibility of those financial statements and the auditor's report thereon.

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:
 - (a) Other information – Financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon. (Ref: Para A4)
 - (b) Inconsistency – Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
 - (c) Misstatement of fact – Other information, that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

¹ This date will not be earlier than December 15, 2008.

Requirements

Reading Other Information

6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.
7. The auditor shall make appropriate arrangements with the entity to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable. (Ref: Para. A5)

Material Inconsistencies

8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.

Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report

9. When revision of the audited financial statements is necessary and the entity refuses to make the revision, the auditor shall modify the opinion appropriately so that the auditor expresses either a qualified opinion or adverse opinion on those financial statements as described in [proposed] ISA 705 (Revised and Redrafted), "Modification to the Opinion in the Independent Auditor's Report."
10. When revision of the other information is necessary and the entity refuses to make the revision, the auditor shall either include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency, withhold the auditor's report or withdraw from the engagement. (Ref: Para. A6-A7)

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report

11. When revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in [proposed] ISA 560 (Redrafted) "Subsequent Events."
12. When revision of the other information is necessary and the entity agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances. (Ref: Para A8)
13. When revision of the other information is necessary, but management refuses to make the revision, the auditor shall take further appropriate action. (Ref: Para A9)

Material Misstatements of Fact

14. If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact the auditor shall discuss the matter with the entity's management. (Ref: Para. A10)
15. When, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.
16. When the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall take further appropriate action. (Ref: Para. A11)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para 1-2)

- A1. Other information may comprise, for example:
 - A report by management or those charged with governance on operations.
 - Financial summaries or highlights.
 - Employment data.
 - Planned capital expenditures.
 - Financial ratios.
 - Names of officers and directors.
 - Selected quarterly data.
- A2. The auditor may have additional responsibilities, through statutory or other regulatory requirements, in relation to other information that are beyond the scope of this ISA. For example, some jurisdictions may require the auditor to apply specific procedures to certain of the other information such as required supplementary data or to express an opinion on the reliability of performance indicators described in the other information. When there are such obligations, the auditor's additional responsibilities are determined by the nature of the engagement and by law, regulation and professional standards. If such other information is omitted or contains deficiencies, the auditor may be required by law or regulation to refer to the matter in the auditor's report.

Considerations Specific to Smaller Entities

- A3. Smaller entities are less likely to issue documents containing audited financial statements. However, an example of such a document would be where a legal requirement exists for an accompanying report by those charged with governance. Examples of other information that may be included in a document containing the audited financial statements of a smaller entity are a detailed income statement and a management report.

Definitions (Ref: Para 5(a))

- A4. For purposes of the ISAs, the definition of other information does not encompass, for example:
- A press release or a transmittal memorandum, such as a covering letter, accompanying the document containing audited financial statements and the auditor's report thereon.
 - Information contained in analyst briefings.
 - Information contained on the entity's web site.

Reading Other Information (Ref: Para 6-7)

- A5. Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis. An agreement with the entity as to when the other information will be available may be helpful.

Material Inconsistencies (Ref: Para 8-13)

Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report

- A6. When the entity refuses to revise the other information, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel. Other appropriate further action may include notifying those charged with governance in writing of the auditor's concern.

Considerations Specific to Public Sector Entities

- A7. In the public sector, withdrawal from the engagement or withholding the auditor's report may not be options. This is particularly the case for national audit agencies that are appointed to audit the financial statements of public sector entities. In such cases the auditor may, as an alternative action, describe the material inconsistency in an Other Matter(s) paragraph in the auditor's report or issue a report to the appropriate statutory body giving details of the inconsistency.

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report

- A8. When the entity agrees to revise the other information, the auditor's procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information are informed of the revision.
- A9. When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining advice from the auditor's legal counsel.

Material Misstatements of Fact (Ref: Para 14-16)

- A10. When discussing an apparent material misstatement of fact with the entity's management, the auditor may not be able to evaluate the validity of some disclosures included within the other information and management's responses to the auditor's inquiries, and may conclude that valid differences of judgment or opinion exist.
- A11. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, the other appropriate actions taken by the auditor may include notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining advice from the auditor's legal counsel.