

**The Auditor's Responsibilities Relating to Other Information in Documents  
Containing Audited Financial Statements—  
Issues and IAASB Task Force Proposals****Objective of this Paper**

1. To consider:
  - (a) The significant issues that should be addressed in the revision of clarified ISA 720;<sup>1</sup> and
  - (b) In light of those issues and the inputs already received, whether additional consultation is necessary prior to developing an exposure draft of the revised ISA 720.

**Background**

2. The objective of the project, as set out in the project proposal, is to “revise ISA 720 to ensure that the ISA continues to be capable of enhancing the credibility of financial statements through specifying appropriate responsibilities of the auditor relating to the range of other information in documents containing audited financial information and taking account of how such information is disseminated.”
3. At its March 2010 meeting, the IAASB discussed the following key issues to be addressed in the revision of ISA 720 and provided preliminary directions to the Task Force for taking the project forward:
  - Broadly, the scope of ISA 720 remains appropriately focused on annual reports. Further consideration should be given to whether other documents should also be included in the scope of the ISA to appropriately reflect practice, and in doing so, to ensure the ISA's continued relevance, usefulness and rigor. In this regard, the IAASB considered a description which, unlike a definition, broadly describes the key features of documents that are intended to be included in the scope of ISA 720. Such a description is aimed at addressing the challenge brought about by differences in terminology across jurisdictions.
  - The auditor's work effort with respect to other information is to read and consider such information. Importantly, the auditor's work effort is undertaken in light of the auditor's knowledge of the entity and information acquired during the course of the audit.
  - Consideration should be given to whether and, if so, in what ways the auditor can deliver added value beyond the auditor's responsibilities in relation to material inconsistencies and material misstatements of fact under extant redrafted ISA 720, bearing in mind the commensurate work effort that will be required of the auditor.
  - While there is agreement that the matter of electronic distribution extends to every document disseminated electronically by the entity to which the auditor may be

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<sup>1</sup> International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

associated, and primarily the financial statements themselves and the auditor's report thereon as opposed to relating solely to other information in the document, further consideration should be given to whether the matter may need to be addressed in the context of ISA 720.

## Significant Issues

### Overview of Significant Issues

4. Guided by the preliminary directions provided by the IAASB, the Task Force is seeking the views of the Board on the following specific matters:
  - (a) In relation to documents to be included in the scope of ISA 720:
    - Continued application of ISA 720 to annual reports
    - Widening the application of ISA 720 to other documents to reflect extant practice and in doing so, ensuring the continued relevance of the ISA
    - How, recognizing differences in terminology across jurisdictions, documents intended to be covered by ISA 720 can best be described
    - The linkage between supplementary information (as specified in ISA 700<sup>2</sup>) and ISA 720
    - The linkage between interim financial information (as addressed in ISRE 2410<sup>3</sup>) and ISA 720
  - (b) The auditor's responsibilities relating to the other information, in particular:
    - The nature and extent of work required to achieve the auditor's objectives under ISA 720 with regard to different types of other information
    - The application of professional judgment and professional skepticism by the auditor in the context of ISA 720
  - (c) Revision of the auditor's objectives under ISA 720 and revision of the title of the ISA
  - (d) The responsibilities of the engagement partner versus other members of the engagement team, including:
    - The (group) auditor's responsibilities relating to other information in the context of a group audit
  - (e) The auditor's responsibilities regarding dissemination by the entity of documents on which work has been performed in accordance with ISA 720, in particular:
    - Electronic dissemination, reproduction, and translation of documents
    - Documentation

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<sup>2</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*

<sup>3</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

- (f) The need for further consultation prior to exposure
5. On balance, the Task Force is of the view that broadly, the overall structure of ISA 720 and its requirements generally remain sound, insofar as they currently extend. However, the Task Force believes the scope of the ISA may be extended, in the public interest, to include certain documents other than annual reports to which the requirements of ISA 720 are currently applied in practice. The Task Force is also of the view that further clarity may be added with regard to the auditor's responsibilities for the other information as distinguished by the nature of such information (i.e., whether or not it is extracted from the audited financial statements). The Task Force further believes the ISA may be enhanced through identifying its linkages with other relevant ISAs.

### **What Documents Should be Included in the Scope of ISA 720?**

#### *Annual Reports*

6. The corporate reporting environment has evolved since the development of extant ISA 720. Entities, regardless of size, have mandatorily or voluntarily embraced documents, other than the annual report, for the purpose of external communication. Examples of such documents include preliminary announcements, interim reports and summary financial statements.
7. Notwithstanding the above, in most jurisdictions, it is true that the annual report generally remains the most commonly accepted (and required) tool for entities' external reporting. Indeed, several references are made to the annual report in the suite of ISAs for example, ISA 240<sup>4</sup> and ISA 700. For these reasons, the Task Force continues to believe it is appropriate for ISA 720 to continue to apply to annual reports. The IAASB expressed its support for this proposal at its March 2010 meeting. Further, in some cases, the other documents produced by the entity possess characteristics, be it in terms of purpose or content, that are similar to the annual report for example, preliminary announcements and interim reports.
8. The Task Force's consideration regarding the application of ISA 720 to documents *other than* the annual report is presented below.

#### *Other Documents*

9. At its March 2010 meeting, the IAASB asked the Task Force to consider whether in addition to the annual report, the scope of ISA 720 should include other documents. For this purpose, the Task Force conducted a fact finding exercise aimed at obtaining information regarding key documents containing audited financial statements issued at the national level, and any other documents that may have linkages to ISA 720 in practice.<sup>5</sup>
10. The results revealed that at the national level, in addition to the annual report, in practice the auditor also applies work effort required under ISA 720 to a limited number of other

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<sup>4</sup> ISA 240, *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*

<sup>5</sup> The Task Force obtained information from relevant IAASB members and technical advisors. Countries included in the fact-finding exercise include Brazil, Canada, France, Germany, Japan, the United States (US) and the United Kingdom (UK).

documents. The Task Force observed that these documents share a number of common key features. These are further described below.

11. The documents to which auditors apply the work effort specified under ISA 720, despite not required under the ISAs, are observed to generally fulfill one of two purposes: (a) providing further commentary to accompany the audited financial statements, or (b) communicating the entity's year-end financial results (i.e., financial position, financial performance or cash flows). In the second instance and depending on the circumstances, the documents communicate either anticipated or actual results. With regard to the timing of the issuance of the documents, it was observed that they are typically made available by the entity once every year.
12. Further, it was noted that the documents are issued either at an advanced stage of the audit engagement or are intended to be made available along with the audited financial statements and the auditor's report. Finally, it was noted that the purpose of such documents is primarily for communication to owners of the entity or similar stakeholders. In most cases, the documents are also made publicly available.
13. In this regard, the Task Force considered whether and, if so to what extent the 'de facto' widening in practice of the application of ISA 720 needs to be reflected in the revision of ISA 720. The Task Force is of the view that continued ambiguity regarding the application of ISA 720 to these documents may perpetuate inconsistency in global audit practices, which is detrimental to audit quality and accordingly, is not in the public interest. It believes therefore that the application of ISA 720 in these cases should be clarified. However, the Task Force expects there will be debate regarding specific documents at the national level that should be included in the scope of ISA 720 and those that should be excluded.
14. Results of the fact finding exercise further indicate that while the term 'annual report' is commonly intended to refer to a document typically issued annually and containing an entity's audited financial statements and the auditor's report, this may not apply uniformly at the national level. Depending on the jurisdiction, the contents of an annual report may also differ. This reinforces the Task Force's earlier view that continued use of a generic defined term (i.e., annual report) in ISA 720 would fail to recognize the absence of consistency in terminology across jurisdictions.
15. In extant ISA 720, the phrase "documents containing audited financial statements" is used, which the ISA states as intending to refer solely to annual reports. Subject to the IAASB's views regarding extension of the scope of ISA 720, a further challenge lies in formulating the scope of the ISA to encompass those documents that are intended to be covered, while recognizing that the same documents may be referred to differently nationally.

#### *Describing Documents Included in the Scope of ISA 720*

16. The Task Force considered possible options for achieving this objective, including retaining ISA 720's focus on annual reports and specifying its wider application in a limited number of circumstances. It concluded that providing a description to describe the key features of documents intended to be covered by ISA 720 would better enable the

objectives of the ISA, as intended, to be achieved. Guided by the results obtained from the fact finding exercise, the Task Force is of the view that documents within the scope of ISA 720 should exhibit the following key features:

- (a) *Purpose of the document.* Intended to:
    - (i) Accompany the audited financial statements for purposes of providing further commentary; or
    - (ii) Announce the actual or expected financial results of the entity at year-end (for example, financial position, financial performance or cash flows).
  - (b) *Timing at which the document is made available.* Annually, and issued at an advanced stage of the audit engagement or intended to be made available along with the audited financial statements and the auditor's report.
  - (c) *Intended recipients of the document.* Owners of the entity or similar stakeholders, or made publicly available.
17. The Task Force expects that the main focus of the documents that meet the above description will be on the entity's audited financial statements (or its expected year-end financial results). Other information contained in these documents typically plays a secondary role of providing further commentary to the audited financial statements.
18. The Task Force is of the further view that specifying the timing at which the document is made available is important so as to ensure cohesion between the auditor's objectives under ISA 720 vis-à-vis the auditor's other responsibilities under the ISAs. In accordance with ISA 560,<sup>6</sup> the auditor has *no* responsibility to perform any procedures regarding the financial statements *after* the date of the auditor's report. Applying this to the auditor's responsibilities under ISA 720, documents included in the scope of ISA 720 should therefore be prepared within the timeframe of the financial statements. They should be intended to be made available to the auditor prior to the date of the auditor's report and for issuance at an advanced stage of the audit if not along with the audited financial statements and the auditor's report. Notwithstanding this, the Task Force recognizes that in some cases, the documents may only become available after the date of the auditor's report although typically within a reasonably short time frame.
19. Following on from the above, where other information is obtained prior to the date of the auditor's report, the auditor's procedures under ISA 720 would inform the audit, particularly if revision of the audited financial statements or the auditor's report becomes necessary due to the identification of a material inconsistency by the auditor. Where this is the case but the other information is obtained subsequent to the date of the auditor's report, the aim of the auditor's work effort under ISA 720 would primarily be to protect the public interest by enabling the auditor to identify other information that is obviously misleading. This also prevents the auditor from being associated with such information. Subject to the IAASB's views, the Task Force believes clarity in this regard would further enhance ISA 720.

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<sup>6</sup> ISA 560, *Subsequent Events*, paragraph 10

20. Applying the above, the Task Force determined that ISA 720 will therefore apply to documents including the following:
- Annual reports
  - Preliminary announcements
  - Management Discussion & Analysis (or equivalent)
  - Form 10-K as prepared in the US
21. For the purpose of clarification, the Task Force determined that ISA 720 would not apply in the following cases:
- Prospectuses
  - Annual financial report as prepared in the European Union in accordance with the Transparency directive<sup>7</sup>
  - Shelf registration document as prepared in France (referred to as *document de reference*) and in Brazil<sup>8</sup>
  - Promotional road shows conducted by the entity for communicating information such as the entity's performance, future strategy and business plan etc.

#### *Other Applications of ISA 720*

##### Application to Supplementary Information

22. When performing the audit, the auditor may come across information provided for the purpose of supplementing the financial statements. While not required by the applicable financial reporting framework, such information may be required by local law, regulation or standards – for example in France, pro forma financial information is required by the local stock exchange which is in addition to the requirements of the financial reporting framework. Alternatively, it may be provided voluntarily by the entity. When such information forms an integral part of the financial statements (because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented), ISA 700 states that the information is covered by the auditor's opinion.<sup>9</sup>
23. In the case of supplementary information that is unaudited, ISA 700 specifies that the auditor's responsibility is consistent with those described in ISA 720.<sup>10</sup> The Task Force is

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<sup>7</sup> In most cases, the entity's audited financial statements and the other information accompanying the statements are made publicly available prior to the issuance of the annual financial report, in which case the annual financial report prepared in accordance with the transparency directive does not meet the key feature (b) in paragraph 16 regarding timing. Where this is not the case and the annual financial report is the first document through which the audited financial statements and the other information are made publicly available, work effort under ISA 720 will be applied by the auditor.

<sup>8</sup> Explanation provided in footnote 9 also applies in the case of the shelf registration document.

<sup>9</sup> ISA 700, paragraph 47

<sup>10</sup> ISA 700, paragraph A51 states that, "[t]he fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited

aware that there may be some confusion over the interrelationship between other information and supplementary information under the ISAs. Accordingly, it would be beneficial to draw a clearer distinction between the two sets of information. The Task Force proposes that the application of the requirements of ISA 720 to supplementary information that is unaudited should be made clear in the scope of the ISA so as to ensure that the standard fully reflects its intended applicability.

24. Separately, the Task Force is aware that some financial reporting frameworks (for example, International Financial Reporting Standards) permit information that is required by the framework to be disclosed outside of the financial statements (i.e., as other information). The Task Force is of the view that, for the avoidance of doubt, auditors should be reminded that despite its location outside of the financial statements, such information is required by the financial reporting framework and therefore falls within the scope of the audit.

#### Application to Reviews of Interim Financial Information

25. Like (annual) financial statements, interim financial information is prepared and presented in accordance with the applicable financial reporting framework and comprises a set of financial statements. The key difference is the time period to which the information relates. Extant ISRE 2410 deals with engagements to review interim financial information of an audit client. The ISRE specifies the auditor's responsibility for reading other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information or appear to include a material misstatement of fact.<sup>11</sup>
26. As the auditor's work effort relating to the other information under ISA 720 and ISRE 2410 is aimed at achieving similar objectives, the Task Force believes that the relevant requirements and guidance relating to the other information in ISRE 2410 should be aligned with their equivalents in ISA 720.

#### **Matters for IAASB's Consideration**

The IAASB is asked:

- Whether it agrees that the scope of ISA 720 should be widened to include other documents, such as those identified in paragraph 20, so as to reflect developments in practice;
- Whether it agrees with describing in ISA 720 the key features exhibited by documents intended to be covered by the ISA;
  - If so, whether it agrees with the specific key features proposed;
- Whether it agrees with the proposal to clarify ISA 720's application to unaudited supplementary information; and

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financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720."

<sup>11</sup> ISRE 2410, paragraphs 36-37

- Whether it agrees that the requirements and guidance relating to other information in ISRE 2410 should be aligned to the equivalent requirements and guidance in the proposed revised ISA 720.

## **What are the Auditor's Responsibilities Relating to Other Information?**

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

27. At its March 2010 meeting, the IAASB agreed with the Task Force's view that when reading the other information to achieve the objectives of ISA 720, the auditor will necessarily *consider* the information, applying a systematic thought-process. It agreed therefore in the revision of ISA 720 that the intention of the standard should be made clear.
28. Further, there was support for clarifying that the auditor's work effort under ISA 720 is undertaken in light of the auditor's knowledge of the entity and information *acquired during the course of the audit*. This is a key principle underlying extant ISA 720. It underlies the level of work effort expected of the auditor so as to satisfactorily comply with the requirements of the ISA. Particularly, the auditor is not expected to verify or determine whether any of the other information is properly stated, which would clearly entail a greater level of work effort in both of those cases.
29. As directed, the Task Force gave consideration to whether and, if so, to what extent the auditor may take on greater responsibility for other information. In doing so, the Task Force was alert to the need to consider in parallel the commensurate amount of work effort required in order to achieve the desired outcomes. The auditor's responsibility and work effort may be viewed as a continuum. The greater the extent of the auditor's responsibility relating to other information, the more likely the level of work effort expected will be higher. For example, if it is desirable for the auditor to report positively on other information (i.e., provide assurance), the auditor's work effort would likely have to extend considerably beyond reading and considering the other information as required under extant ISA 720.
30. Extant ISA 720 draws a distinction between other information that is related to the audited financial statements and that which is unrelated to matters appearing in the audited financial statements.<sup>12</sup> The auditor's actions, where required, would vary in each case depending on the circumstances of the engagement. This is another dimension (i.e., the nature of the other information) for consideration in determining whether and if so, to what extent the auditor may take on greater responsibility in relation to other information.

### **Other Information Extracted from the Audited Financial Statements**

31. Integral to maintaining the credibility of the audited financial statements, in the event the other information is *extracted* from the audited financial statements, is ensuring that such information is not inconsistent with the audited financial statements. In such a case, the Task Force believes that it would be reasonable to expect the auditor to perform procedures to agree or reconcile the other information with the audited financial statements.

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<sup>12</sup> ISA 720, paragraph 5(b)–(c)

### Other Information Not Extracted from the Audited Financial Statements

32. A greater challenge lies in determining the extent to which the auditor should hold a responsibility regarding other information that is *not extracted from* the audited financial statements. It is less certain in this case where the boundaries for the auditor's procedures should be drawn. The auditor has a professional obligation to not knowingly be associated with misleading information.<sup>13</sup> On reading and considering other information, the auditor may become aware of information that is obviously misleading in light of the auditor's knowledge of the entity and information acquired during the course of the audit. The auditor is required to respond as appropriate in these circumstances.
33. In this regard, the Task Force considered the ways in which other information in documents within the scope of ISA 720 may be obviously misleading. It determined that other information may be misleading by virtue of its inclusion in the document, or the document may be misleading by virtue of the omission of other information. When included, such information may be misleading if incorrectly stated or presented. By the same token, documents may omit other information that should have been included and therefore such an omission resulting in users being misled. This is particularly the case where matters of fact are involved, for example, omission of information regarding loss of a significant client. In both cases of inclusion or omission, the auditor may determine the other information is obviously misleading as a result of a material misstatement of fact.
34. The auditor may also determine that other information in a document is obviously misleading if the information is materially inconsistent with the auditor's knowledge of the entity and its environment acquired during the audit. In some cases, the other information may be obscured and as such, the obscurity may cause the information to be misleading. For example, a convoluted description that is difficult to understand may obscure the underlying matter that is being reported upon.

### Professional Judgment and Professional Skepticism

35. Unlike other information that is extracted from the audited financial statements, determining whether information is misleading typically requires auditors to exercise greater judgment. Where judgments are required to be exercised, differences of opinion may arise between the auditor and the entity. In this case, the auditor may be challenged to objectively demonstrate the auditor's conclusion and rationale for forming the view that the other information in question is misleading. Accordingly, the Task Force recognizes that it is generally more difficult for the auditor to take issue with a matter of judgment (for example, qualitative assertions made by management such as "we believe we are the fastest growing in the market," or prospective claims such as "overseas operations are expected to be growing twice as fast").
36. An auditor is not expected to substitute the auditor's judgment for that of management and those charged with governance when dealing with matters requiring judgment that are the responsibilities of these parties. However, the Task Force is of the view that there may be

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<sup>13</sup> Section 110.2 of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants

circumstances where, although unrelated to the audited financial statements, the auditor may determine assertions exist in the other information that are materially at variance with the auditor's knowledge and therefore may mislead users.

37. In making this determination, the auditor may consider whether the magnitude or nature (or a combination of both) of the misstated, omitted or inconsistent information, whether considered individually or in the aggregate, in light of surrounding circumstances and taking into account the common information needs of users as a group, may reasonably be expected to influence the economic decisions of users.
38. Also relevant is the requirement in ISA 200 for the auditor to maintain an attitude of professional skepticism during the performance of the audit.<sup>14</sup> The Task Force is the view that due to the nature of the other information, the auditor's professional skepticism is particularly important in the context of the auditor's reading and considering of the other information especially for the purpose of identifying information that is obviously misleading.
39. On this note, the Task Force believes ISA 720 may be further enhanced by introducing a 'stand-back' requirement for the auditor. After reading and considering the other information, taking the document as a whole, the auditor would 'stand-back' and consider whether there are any remaining matters relating to the other information that could undermine the credibility of the audited financial statements and the auditor's report, or make the other information obviously misleading.

#### **Matters for the IAASB's Consideration**

The IAASB is asked:

- Whether it agrees that the auditor, for the purpose of ISA 720, reads and considers the other information in light of the auditor's knowledge of the entity and information acquired during the course of the audit;
- Whether it agrees when the other information is extracted from the audited financial statements, that the auditor should be required to agree or reconcile such information with the audited financial statements;
- Whether it agrees that the auditor should be required to respond appropriately when the auditor becomes aware of information that is obviously misleading;
  - If so, whether it agrees that the other information is misleading when such information contains: (a) a material misstatement of fact (by virtue of its inclusion or the omission of relevant facts); or (b) a material inconsistency with the auditor's knowledge of the entity and its environment as acquired during the audit; and
- Whether it agrees that guidance on the auditor's application of professional judgment and professional skepticism in the context of ISA 720 should be included in the ISA.

<sup>14</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards*, paragraph 15

### **The Auditor's Objectives under ISA 720 and the Title of the ISA**

40. Subject to the IAASB's views regarding the documents that should be included in the scope of ISA 720 and the auditor's responsibilities relating to the other information in such documents, the auditor's objectives under revised ISA 720 and the title of the ISA will need to be revised accordingly. The Task Force presents some proposals for the IAASB's consideration below.
41. For reference, the title of extant ISA 720 (in italics) and the objective of the auditor under the ISA are as follows:<sup>15</sup>

*The auditor's responsibilities relating to other information in documents containing audited financial statements.*

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

42. In light of the proposals regarding the auditor's responsibilities in relation to other information presented in this Issues Paper for the IAASB's consideration, the Task Force suggests the following to describe the auditor's objectives under ISA 720:

The objective of the auditor is to consider, in light of the auditor's knowledge of the entity and its environment acquired during the course of the audit, the other information accompanying the audited financial statements and the auditor's report in order to:

- (a) Determine whether the other information, insofar as it relates to the audited financial statements, could undermine their credibility and the auditor's report thereon; and
  - (b) Avoid knowingly being associated with misleading information that is not related to the audited financial statements,
- and to respond appropriately.

43. Further, in light of the proposals regarding documents that should be included in the scope of ISA 720 presented in this Issues Paper for the IAASB's consideration, the Task Force suggests the following title for the revised ISA 720:

The auditor's responsibilities relating to other information accompanying or announcing the audited financial statements and the auditor's report

#### **Matters for IAASB's Consideration**

The IAASB is asked for its views on:

- The proposed objectives of the auditor under revised ISA 720.
- The proposed title of revised ISA 720.

<sup>15</sup> ISA 720, paragraph 4

### **Who Should be Responsible for Performing the Relevant Audit Procedures?**

44. Also relevant to the discussion of the auditor's work effort is the determination of the appropriate individuals on the engagement team to whom the task of reading and considering the other information should be assigned. The engagement partner has responsibility for the overall quality of the audit.<sup>16</sup> This responsibility would extend to ensuring that the other information does not undermine the credibility of the audited financial statements.
45. Notwithstanding this, in some cases, the engagement partner may delegate some of the task of reading and considering the other information to other members of the engagement team. The Task Force believes that where this is the case, the engagement partner should have responsibility for ensuring that such assistance is obtained only from appropriate individuals on the engagement team.
46. Relevant factors to the consideration of which members of the engagement team to assign the task of reading the other information may include whether the individuals have sufficient knowledge of the entity and its environment, and of the audit to credibly consider the other information from the perspective of material inconsistencies and material misstatements of fact. Typically, more experienced members of the engagement team would be assigned responsibility to read other information that involves a greater amount of judgment. By the same token, less complex procedures involving a lower degree of judgment such as cross-checking of figures to the audited financial statements may be carried out by less experienced members of the engagement team.

### *Group Audits*

47. In accordance with ISA 600, the group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards, and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.<sup>17</sup> Accordingly, in the context of ISA 720, the responsibilities relating to other information in documents containing the (group) audited financial statements and the (group) auditor's report remains that of the group auditor. The Task Force considered whether and, if so, what additional work needs to be performed by the group auditor in respect of the other information relating to the entity's components.
48. The group engagement team is required under ISA 600 to obtain an understanding, among other things, of the entity's components and their environments, and of the component auditor(s) sufficient for the purpose of the audit.<sup>18</sup> It is in light of this knowledge that the group auditor reads and considers other information in accordance with the requirements of ISA 720. Notwithstanding this, the Task Force is of the view there may be cases where on reading and considering other information relating to the components, the group auditor

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<sup>16</sup> ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 8

<sup>17</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 11

<sup>18</sup> ISA 600, paragraphs 12, 17 and 19

determines a need to engage the assistance of the component auditor(s) for purposes of fulfilling the group auditor's objectives under ISA 720.

49. Neither extant ISA 720 nor ISA 600 addresses such scenario. The Task Force is therefore of the view that benefits may be had from including in ISA 720, guidance in this regard. At a minimum, such guidance would serve to alert the (group) auditor to such circumstances.

#### **Matters for the IAASB's Consideration**

The IAASB is asked:

- Whether it agrees that the engagement partner's responsibility for the audit under ISA 220 also applies to other information in the context of ISA 720;
- Whether it agrees, where the assistance of other members of the engagement team is obtained, that the engagement partner has a responsibility for ensuring that the relevant work under ISA 720 is performed by appropriate individuals; and
- Whether it agrees that guidance should be included in ISA 720 regarding the (group) auditor's consideration of whether and, if so, in what ways to engage the assistance of the component auditor(s) in the case of a group audit.

#### **What are the Auditor's Responsibilities regarding the Dissemination of Documents by the Entity?**

##### *Electronic Dissemination, Reproduction, and Translation*

50. At its March 2010 meeting, the IAASB considered the question of whether ISA 720 should address the matter of electronic distribution. The IAASB broadly supported the Task Force's proposal to retain the scope of extant ISA 720 on the basis of the following:

- The matter of electronic distribution extends to every document disseminated electronically by the entity to which the auditor may be associated, and primarily the financial statements themselves and the auditor's report thereon. This is in contrast to ISA 720's focus on the other information in documents containing audited financial statements.
- Dealing with the matter of electronic distribution will necessitate considerations that extend well beyond matters that relate to other information. Considerations in this regard would not be complete without addressing matters such as the auditor's arrangement with management to be made aware, and obtain a copy, of the electronic document, and the auditor's responsibilities and procedures in these cases. Addressing these matters would not be consistent with the scope and focus of ISA 720.
- In many cases, the auditor has limited, if any, control over the circumstances when documents containing audited financial statements and the auditor's report are disseminated electronically. Notwithstanding this, there is the likelihood that the auditor may be associated with these electronic documents (by virtue of the inclusion of the audited financial statements and auditor's report). Accordingly, it may be more appropriate to deal with the matter of electronic dissemination as a consideration, among

- others, to be addressed under the topic of auditor association as opposed to dealing with the matter in ISA 720.
- Considerations similar to those outlined above also extend to circumstances where documents containing audited financial statements and the auditor's report are reproduced or translated. For completeness, when dealing with electronic dissemination, the matters of reproduction and translation should also be addressed in parallel. By the same token, this would not be consistent with the scope and focus of ISA 720.
51. In connection with this, the Task Force considered, in response to concerns raised by some constituents regarding the integrity of information posted on an entity's website (particularly the audited financial statements), whether the auditor should be required to verify the other information on the entity's website when posted *for the first time*. While this may enable the auditor, *in the first instance*, to identify other information on the entity's website that could undermine the credibility of the audited financial statements and the auditor's report, and that are obviously misleading, actual benefits that are realized may be limited.
52. Because the scope of the audit does not extend to information on the entity's website, the auditor's knowledge of the entity's controls over posting and amendment of information on the entity's website may be limited. Online information can also be easily altered without the auditor being made aware and it is clearly impractical for the auditor to have continuous responsibility for keeping track of postings and amendments to the entity's website. The Task Force believes that requiring the auditor to perform limited work in this regard (i.e., read and consider) may seem to be advantageous at the outset. However, it questions whether this is indeed the case, particularly if it may result in widening the expectation gap in terms of the public forming the perception that the auditor's responsibility in relation to such information extends beyond that which is intended by the ISAs. Alternatively, requiring the auditor to obtain an understanding of the entity's controls designed and implemented regarding information on its website would extend far beyond the scope of the audit.

#### *Documentation*

53. The Task Force further debated whether extant ISA 720 gives sufficient recognition to the circumstance when the entity amends the document subsequent to the auditor's work under ISA 720. It came to the view that the ISA may be further enhanced by clarifying whether and, if so, what the auditor's responsibilities are in this regard particularly in relation to documentation. The Task Force believes that it is important for the auditor to make the necessary arrangements with management regarding the version the auditor should be reading and considering for the purpose of complying with ISA 720. In this regard, the Task Force is of the view that it is appropriate for the auditor to agree with management the final version of the document(s) on which the auditor has performed work under ISA 720.
54. To provide evidence that the auditor has read and considered the other information, and responded in accordance with the requirements of ISA 720, the Task Force is also of the view that a copy of the document(s) agreed with management should be included in the audit documentation. In cases where the document is subsequently amended by the entity, such documentation would also serve as a record of the version on which the auditor's work is performed.

### **Matters for IAASB Consideration**

The IAASB is asked:

- Whether it agrees that because the matter of electronic dissemination involves consideration of subjects broader than other information, it may not be addressed in ISA 720 without a significant extension and shift in the scope and focus of the standard; and
- Whether it agrees that the auditor should:
  - Agree with management the final version of the document(s) read and considered by the auditor and, if necessary, for which appropriate action have been taken that are intended for distribution by the entity; and
  - Include a copy of such document(s) in the audit documentation.

### **Need for Further Consultation**

55. As part of due process, the Task Force is required to consider specifically whether further consultation would be appropriate to obtain necessary input before the development of an exposure draft of the proposed revised ISA 720.
56. Users—an important stakeholder group of the project—is represented through the CFA Institute who participates directly in the project through its membership on the Task Force. With assistance from the CFA Institute, the Task Force intends to obtain further information on user views on relevant key issues considered by the project.<sup>19</sup> Also, cognizant of the likely interest of certain stakeholders in the project's developments, the Task Force has also made a conscious effort to engage with these stakeholders early in the process where possible to obtain an understanding of their views on key issues considered in the project. Further updates will be provided during the Task Force's presentation.
57. Further, timely inputs from specific constituencies have and will continue to be obtained through other key IAASB consultative, liaison and promotional channels, including:
  - IAASB CAG meetings in September 2010 and March 2011
  - International Forum of Independent Audit Regulators meeting in September 2010 (through the IAASB Chair)
  - Annual IAASB-National Auditing Standard Setters meeting in April 2011
  - Forum of Firms meetings (on-going)
58. The Task Force believes, based on the above, that further consultation (e.g., issuing a public consultation paper that would deal with the issues discussed in this Paper) in addition to that outlined above is not likely to elicit new information to any significant extent. Therefore, the Task Force believes that such further consultation is not needed at this stage of the project.

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<sup>19</sup> The survey will be undertaken through the CFA Institute representative on the Task Force.

**Matter for the IAASB's consideration**

The IAASB is asked whether it agrees with the Task Force's conclusion regarding the need for further consultation in advance of development of an exposure draft of revised ISA 720.