

**Meeting:** IAASB Consultative Advisory Group

**Meeting Location:** New York

**Meeting Date:** September 11, 2012

## Agenda Item

# C

### **The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon – ISA 720 Report Back, Issues and Task Force Proposals**

#### **Objectives of Agenda Item**

1. The objectives of this Agenda Item are:
  - To provide a report back to the Representatives on their comments and questions on the proposed revised ISA 720<sup>1</sup> as discussed at the September 2011 CAG Meeting; and
  - To obtain the Representatives' views on the key issues to be discussed by the IAASB at its September 2012 meeting.

#### **Papers to Be Referred to during Discussion**

2. The discussion on this topic will follow the structure of this CAG Paper.

#### **Project Status and Timeline**

3. The IAASB will be asked to approve proposed ISA 720 (Revised) for exposure at its September 2012 meeting, along with proposed consequential and conforming amendments to ISAs 260, 450 and 700,<sup>2</sup> and the Glossary of Terms.
4. The proposed ISA 720 is provided as **Agenda Item C.1**. In addition, the proposed consequential and conforming amendments are provided as **Agenda Item C.2**. For reference only, the issues paper for the September 2012 IAASB meeting is included as a CAG Reference Paper.
5. Appendix 1 of this paper provides a project history, including links to the relevant CAG documentation.

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<sup>1</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

<sup>2</sup> ISA 260, *Communication with Those Charged with Governance*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; ISA 700, *Forming an Opinion and Reporting on Financial Statements*

## September 2011 CAG Discussion

6. Below are extracts from the draft minutes of the September 2011 CAG meeting,<sup>3</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
SCOPE OF ISA 720	
Mr. James suggested that further consideration may need to be given to the timing of availability of the information, in light of law or regulation that may require auditors to have some responsibility for other information (other information) that may not meet the definition included in the proposed revised ISA, because of the time at which it is available.	<p>Point accepted.</p> <p>Mr. Gélard noted that the prior wording had been revised as to documents that are "intended to be made available to the intended users along with, <i>or at about the same time as</i>, the initial release, typically annually, of the audited financial statements and the auditor's report thereon" to address this issue. He also confirmed that this indication of timing would be the same regardless of whether Option A or Option B is chosen for the ED.<sup>4</sup></p> <p>The Task Force proposes new application guidance to explain that the concept of "documents prepared and issued in connection with the initial release of the audited financial statements" is intended to mean the <i>first time</i> the audited financial statements and the auditor's report thereon for a reporting period are made available to intended users, rather than a particular date on which they are first issued. The Task Force has also added guidance to explain that documents prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor's report thereon represent the set of documents prepared for that purpose and that these documents may not all be issued on the <i>same</i> date. See Issue A below.</p>

<sup>3</sup> The minutes will be approved at the September 2012 IAASB CAG meeting.

<sup>4</sup> The two options were characterized in the agenda material as Option A and Option B. Option A proposed that the other information "is prepared to accompany audited financial statements and the auditor's report thereon, and: (i) has a primary purpose of providing commentary to enhance the intended users' understanding of the entity and its environment; and (ii) its subject matter is within the auditor's understanding of the entity and its environment acquired during the course of the audit." Option B proposed that the other information "is prepared to accompany audited financial statements and the auditor's report thereon, and has a primary purpose of providing commentary to enhance the intended users' understanding of the audited financial statements and the financial reporting process."

Representatives' Comments	Task Force/IAASB Response
	<p>Finally, the Task Force has added guidance to explain that the fact that other information was not available at the date of the auditor's report does not obviate the need for the auditor to read and consider it in light of the auditor's understanding of the entity and its environment acquired during the course of the audit if such other information subsequently becomes available and is included in a document that is within the scope of this ISA.</p> <p><b>See paragraphs 2, A1-A2 and A54 of Agenda Item C.1.</b></p>
<p>Mr. James noted that some IOSCO members were unsure whether expanding the extant ISA to cover those documents in either Option A or Option B would improve audit quality, as the auditor may not wish to be associated with some of the documents contemplated under both options.</p>	<p>Point taken into account.</p> <p>Mr. Gélard noted that, to mitigate this concern, application material had been specifically drafted to exclude documents of which the auditor may not have any knowledge.</p> <p>At its September 2011 meeting, the IAASB expressed overwhelming support for extending the scope of the revised ISA to only such <i>accompanying documents</i> that have a primary purpose of providing commentary to enhance the intended users' understanding of the <i>audited financial statements and the financial reporting process</i> (Option B).</p> <p>Documents containing the audited financial statements and the auditor's report thereon will continue to be in scope if prepared and issued in connection with the initial release of the audited financial statements and the auditor's report thereon. This would be consistent with extant ISA 720.</p> <p><b>See paragraphs 2, A3 and A6-A9 of Agenda C.1.</b></p>
<p>Mr. Roussey questioned how the proposed revised ISA addresses documents filed on the company's website.</p>	<p>Point taken into account. Mr. Gélard explained that the application material notes that documents within the scope of the ISA may be made available to the intended users in the form of printed hardcopy, or electronically, including by posting on the entity's website. Although the auditor is not expected to search the entity's website for</p>

Representatives' Comments	Task Force/IAASB Response
	<p>documents that are within the scope of the ISA, a document that meets the criteria set out in the definition section of the proposed revised ISA is within the scope of the ISA, irrespective of the manner in which it is made available to the intended users.</p> <p>The Task Force agrees with Mr. Gélard's initial comments that appropriate guidance has already been provided in the application material.</p> <p><b>See paragraph A4 of Agenda C.1.</b></p>
<p>Mr. Koktvedgaard supported the proposed revised ISA, and requested clarification as to whether an auditor would be required to follow ISA 720 in opining on the financial statements.</p>	<p>Support noted.</p> <p>Mr. Gélard explained that this would be the case.</p> <p>The Task Force shares Mr. Gélard's view.</p>
<p>Mr. Morris suggested that, regardless of the option chosen, the Task Force should consider whether inserting the phrase "that the auditor is aware of" in relation to the auditor's responsibilities for other information. In his view, in today's environment when public companies file various documents at the same time as the financial statements, there may be information the auditor is not aware of and, if the auditor is associated with it, it may be increasing the expectations gap.</p>	<p>Mr. Gélard noted that there is a requirement in the proposed revised ISA for the auditor to make appropriate arrangements with management or those charged with governance to obtain, prior to the date of the auditor's report, documents that are within the scope of the ISA. Prof. Schilder noted that there is always a risk that matters are not brought to the auditor's attention. In his view, in the future this concern might be mitigated by the auditor reporting on the ISA 720 responsibilities and the documents the auditor has read.</p> <p>The Task Force is also proposing a consequential amendment to ISA 260 to explain that matters communicated to those charged with governance may include details of the documents that the entity intends to prepare and issue for which the auditor has responsibilities under the proposed ISA 720, and when such documents are expected to be made available to the auditor.</p> <p><b>See paragraph 10 of Agenda Item C.1, and the consequential amendment to ISA 260 in Agenda Item C.2.</b></p>
<p>Ms. de Beer noted the clear link between this debate on the consideration of the two options and</p>	<p>Point noted.</p>

Representatives' Comments	Task Force/IAASB Response
the auditor reporting project.	See Issue C below regarding reporting.
OPTIONS	
<p>Messrs. Roussey and Waldron and Ms. Sucher preferred Option A for the following reasons:</p> <ul style="list-style-type: none"> <li>Ms. Sucher believed the suggestion of scoping in “subject matter [that] is within the auditor’s understanding of the entity and its environment acquired during the course of the audit” was a useful way forward. In her view, Option B may be perceived as narrowing the scope of extant ISA 720 if readers do not believe annual reports are included in the scope of the revised ISA.</li> <li>Mr. Waldron was of the view that the broader scope of Option A was keeping in line with the objective at the onset of the project to enhance the auditor’s value-added in this area. He believed investors would find the auditor’s involvement with additional information more useful, and reiterated the view that their responsibilities for this information should also be described in the auditor’s report. Mr. Roussey supported Mr. Waldron’s point, although he noted that this may create additional legal issues for the auditor.</li> </ul>	<p>Point taken into account.</p> <p>Mr. Gélard clarified that this was not the intention of the Task Force in proposing either option, and that annual reports would remain in the scope of the proposed revised ISA.</p> <p>The IAASB overwhelmingly supported Option B at its September 2011 meeting. See response to Mr. James’s comment above on the scope issue.</p> <p>See Issue C below with respect to reporting.</p>
<p>Messrs. Koktvedgaard and White and Ms. Blomme preferred Option B for the following reasons:</p> <ul style="list-style-type: none"> <li>Mr. Koktvedgaard was of the view that preparers would favor Option B as it appropriately and clearly narrows the auditor’s focus. He acknowledged, however, that legislation may require auditors to review other documents.</li> <li>Mr. White believed Option B would be better understood by users in the context</li> </ul>	<p>Support Noted.</p> <p>The draft ISA already acknowledges that law or regulation may impose obligations with respect to other information that are beyond the requirements (and are therefore outside the scope) of this ISA.</p> <p><b>See paragraph 6 of Agenda Item C.1.</b></p> <p>Support noted.</p>

Representatives' Comments	Task Force/IAASB Response
<p>of the auditor's report, because of the primary purpose of these documents. He also felt that Option B appropriately recognizes the core competencies of the auditor and places boundaries on the risk of liability on the auditor.</p> <ul style="list-style-type: none"> <li>Ms. Blomme agreed there were some merits in Option A in light of the request to auditors to extend their role. In her view, since the information covered by Option B naturally follows out of the audit process, this option would be preferred. In her view, it would be more clear that the auditor has not provided separate assurance on the other information if Option B is selected.</li> </ul>	<p>Support noted.</p> <p>Prof. Schilder noted that requests for assurance on certain other information that might be scoped into the ISA under Option A are also being explored in the auditor reporting project.</p>
<p>Ms. Sucher inquired as to whether the intent of either of the proposed options would be to cover Pillar 3 information (required banking disclosures) that currently may be published at the same time as the bank's annual report. In her view, she would presume it would be covered under Option A, but it was less clear whether it would be covered under Option B.</p> <p>Ms. Sucher noted her communications with credit rating agencies had indicated that they use Pillar 3 information to understand the banks' audited financial statements.</p>	<p>Point taken into account.</p> <p>Mr. Gélard agreed with Ms Sucher's presumption and noted further consideration may be needed on the matter.</p> <p>The Task Force notes that Pillar 3 information would be covered as long as it meets the criteria for documents included in the scope of the proposed ISA.</p>
<p>Mr. White suggested that it should specifically be clarified in the application material whether presentations to credit ratings agencies fall into the scope of the proposed revised ISA.</p>	<p>Point taken into account.</p> <p>Mr. Gélard noted that, while the intent of the proposed revised ISA was to say that the intended users of the other information would be the same intended users as the audited financial statements, the Task Force would consider the matter further.</p> <p>The Task Force notes that such presentations would be covered as long as they met the criteria</p>

Representatives' Comments	Task Force/IAASB Response
	<p>for documents included in the scope of the proposed ISA, for example if they are published or made publically available. General purpose financial statements are prepared to cover the needs of a wide range of users, i.e., the general public. Credit rating agencies may be considered as selected users and unless the presentations are made publically available to prevent providing privileged information to a group of users, they would not come into the definition.</p>
OTHER MATTERS	
<p>Ms. Sucher agreed with the suggestion that both options considered should be included in the ED. Ms. de Beer agreed and noted that CAG generally seemed to support this, as well as the proposal to include a question in the ED to ask respondents for their view on whether the scope of proposed revised ISA 720 has been clearly defined, including whether it has been appropriately circumscribed.</p>	<p>Points noted.</p>
<p>Ms. Sucher did not support the proposed changes to the requirement in paragraph 12 of the ISA as a result of the March 2011 IAASB meeting in relation to financial data included in the other information. In her view, this was a weakening of a requirement that she supported for the auditor to perform procedures on this financial information, as the application material now describes the procedures as a matter of professional judgment.</p>	<p>Point taken into account. Mr. Gélard explained that the Task Force's intention was not to weaken the requirement, but rather introduce the ability for the auditor to test management's reconciliation. In his view, such judgment would be made with consideration for the likely material effect of an inconsistency in the financial data on the credibility of the financial statements. He also noted that the amendment of the requirement and the corresponding application material was made to take care of the practicalities of the work done.</p> <p>See Issue B below. The Task Force believes that the principles-based approach it has taken in the revised draft regarding the auditor's work effort when reading and considering the other information, supported by significantly expanded application material to guide the work effort, represents a strengthening of its original proposals.</p> <p>The Task Force believes that the new application material on work effort, which includes detailed</p>

Representatives' Comments	Task Force/IAASB Response
	<p>guidance on procedures that may be performed with respect to both quantitative and qualitative financial information, will better assist auditors in operationalizing the “read and consider” requirement.</p> <p><b>See paragraphs 11 and A27-41 of Agenda Item C.1.</b></p>

## Matters for CAG Consideration

### A. Scope

7. At the December 2011 IAASB meeting, a concern was raised by an IAASB member that the concept of “documents prepared and issued in connection with the initial release of the audited financial statements” was unclear. It was noted that in certain jurisdictions, the initial release of information is, for listed entities, the release of the financial information to the securities exchange. This release may not necessarily contain all the information that is provided to the entity’s shareholders the first time they receive the audited financial statements, and which is intended to be captured within the scope of the revised ISA (for example, a Chairman’s Statement or a Management Discussion and Analysis (MD&A)). It was argued that if the definition were to be applied strictly as drafted, auditors might conclude that annual reports are scoped out.
8. A question was also raised as to whether an offering document such as a prospectus would be in scope if it were the document in which the financial statements were issued for the first time.

#### Initial Release

9. The Task Force further reflected on the IAASB member’s comments, and proposes to clarify that the initial release is intended to mean the *first time* the audited financial statements and the auditor’s report thereon for a reporting period are made available to intended users, rather than a particular *date* on which they are first issued. To further clarify the concept, the Task Force proposes to add guidance to explain that documents prepared and issued by the entity in connection with the initial release of the audited financial statements and the auditor’s report thereon represent the set of documents prepared for that purpose and that these documents may not all be issued on the *same date*. **(See paragraphs A1-A2 of Agenda Item C.1)**

#### Release of the Audited Financial Statements for the First Time in an Offering Document

10. The Task Force accepted that offering documents should not automatically be treated as out-of-scope if they meet the criteria for being in scope. Accordingly, the Task Force proposes guidance in **paragraph A14 of Agenda Item C.1** to make this clear.



**Matter for CAG Consideration**

1. Representatives are asked to share their views about the Task Force's proposals in relation to the scope.

**B. Nature and Extent of Work Effort When Reading and Considering Other Information**

11. Subsequent to the CAG's consideration of the proposed standard in September 2011, the Task Force considered it necessary to strengthen proposals regarding the actions that the auditor should take to safeguard the credibility of the audited financial statements when an inconsistency in the financial data is identified that would have a material effect on such credibility.
12. The December 2011 draft proposed to require the auditor, in considering financial data in the other information, to identify financial data where an inconsistency would have a material effect on the credibility of the audited financial statements and:
  - (a) For financial data that are intended to be the same as those in the audited financial statements, compare the financial data to the audited financial statements; and
  - (b) For financial data that are directly reconcilable to the audited financial statements, obtain management's reconciliation of such data and compare the components of the reconciliation to the audited financial statements.
13. Several IAASB Board members expressed concerns about how this requirement would be operationalized in practice. In particular, the concept of financial data that are directly reconcilable appeared unclear; so too did the nature of the reconciliation needed. In addition, the use of the term "financial data" appeared to leave out qualitative other information. It was argued that qualitative information should represent the greater focus of the auditor's work effort to ensure that it is not materially inconsistent with the auditor's understanding of the entity and its environment. The IAASB asked the Task Force to consider developing further application material to assist consistent application of the proposed requirement.

*Principles-Based Approach vs. Detailed Requirements*

14. The Task Force has subsequently explored two different approaches to establishing the nature and extent of the work effort:
  - More detailed requirements that would specify the expected nature and extent of work effort regarding different types of other information.
  - A principle-based approach that would establish an overarching requirement with respect to the work effort, supported by detailed application material that would explain how auditors may operationalize it in practice.
15. The Task Force agreed that the principles-based approach would be the better approach for a number of reasons:
  - Not all possible situations can be anticipated in terms of the nature and type of OI that can be provided, and a specific set of requirements cannot be developed for every situation.

- In contrast, establishing a principle that the auditor's work effort in considering the OI needs to be sufficient in each case to enable the auditor to be in a position to respond appropriately when there may be material inconsistencies in the OI or material misstatements in the financial statements, would compel the auditor to make judgments about, and tailor the auditor's work effort in response to, each different situation. The principle could then be backed up by informed application material.
  - Where detailed requirements can be developed, they would generally tend to revolve around the lowest value tasks (such as "ticking and tying" amounts that can be found in the financial statements), thereby inappropriately suggesting that these are the areas where the greatest effort would be expected. Such an approach would detract from the more important task of focusing on the more subjective and higher risk areas where greater judgment would be necessary.
  - As a result, an approach of specifying detailed requirements may be seen to:
    - Undermine the quality of the standard by comparison with a principled approach, which can offer a richer explanation in the application material of how the OI can be compared with the auditor's understanding of the entity and its environment; and
    - Encourage a "checklist" mentality that would detract from the exercise of appropriate professional judgment by the auditor.
16. The Task Force therefore proposes that proposed ISA 720 retains the overarching requirement with respect to reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the audit to respond appropriately when there are indications in the other information that it may contain material inconsistencies or that the financial statements may be materially misstated, supported by detailed application material explaining the varying work effort that might be undertaken depending on the circumstances. (See paragraphs 11 and A27-A41 of **Agenda Item C.1**)

#### *Work Effort with Respect to the Other Information*

17. The Task Force felt it important to first recognize that when reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the audit, the auditor may refer to the audit documentation if needed as the latter will often contain a record of the auditor's more detailed understanding of the entity and its environment acquired during the audit. Accordingly, the Task Force proposes application material to make this clear. (See paragraph A30 of **Agenda Item C.1**)
18. In thinking about how to articulate the nature and extent of the auditor's work effort when reading and considering the other information, the Task Force agreed that it would be necessary to first determine on which parts or aspects of the other information the auditor should *focus*. This is because, while the auditor would be required to read *all* of the other information, not all of it may merit further consideration to the same degree. The Task Force believes that various factors may assist the auditor in making an informed judgment in this regard. Accordingly the Task Force proposes new application material in the proposed ISA that describes these factors. (See paragraph A34 of **Agenda Item C.1**)

19. The Task Force further agreed that the nature of the procedures the auditor might perform when further considering the other information would depend on the nature of the information, and proposes application material that describes the nature of these procedures. (See paragraph 20 below.) In support of this, the Task Force also proposes application material that describes the different types of other information the auditor may encounter. (See paragraph A17 and the Appendix of **Agenda Item C.1**)
20. The following are some of the additional considerations with respect to Task Force's proposals regarding the nature and extent of work effort when reading and considering other information.
- (a) *Amounts Same as in the Financial Statements (Category 1 Other Information)*. The Task Force believes that “ticking and tying” all such information to the audited financial statements is already done to a large extent in practice. However, the Task Force believes it would be helpful to include application material to guide the auditor in agreeing amounts in the other information that are intended to be the same as amounts in the audited financial statements. (See paragraph A35 of **Agenda Item C.1**)
  - (b) *Narrative Disclosures Intended to Convey the Same Meaning as in the Financial Statements (Category 2 Other Information)*. The Task Force felt that it should be a matter for the auditor's professional judgment as to which items in this category to further consider. While slightly greater judgment may be involved here when considering the other information, the level of difficulty involved may not be significantly greater than that relative to Category 1 other information. (See paragraph A35 of **Agenda Item C.1**)
  - (c) *Directly Reconcilable Financial Information (Category 3 Other Information)*. The IAASB had generally agreed to limit directly reconcilable financial information to quantitative financial information that is supportable by a management reconciliation, all the items within which can be agreed to specific elements, accounts or items *in the financial statements*. The Task Force has made this clear in the proposed ISA. (See paragraphs A36 of **Agenda Item C.1**) The Task Force also proposes additional application material to provide examples of amounts that would be considered directly reconcilable or, on the contrary, not directly reconcilable (see paragraphs A37-A38 of **Agenda Item C.1**).

The IAASB generally did not agree that it would be appropriate for the proposed ISA to extend the proposed requirement regarding testing of “directly reconcilable financial information” to cover amounts in the other information that could only be reconciled by agreeing items in the reconciliation to the entity's accounting records. Doing so may inappropriately suggest that the auditor is required to gather new audit evidence about the other information rather than just comparing the other information with the auditor's understanding based on the audit work. Further, if no boundary were established around directly reconcilable financial information, everything would be reconcilable to some extent and the work effort would become disproportionate. Therefore, the application material states that for directly reconcilable financial information, the auditor may consider obtaining a reconciliation from management and agreeing items in the reconciliation to the audited financial statements (see paragraph A35 of **Agenda Item C.1**). Nonetheless, there may also be circumstances where the auditor judges that agreeing items to the audit documentation or

to other appropriate sources may be an appropriate way to consider the other information in light of the auditor's understanding. (See paragraph A41 of Agenda C.1)

- (d) *All Other Financial and Non-financial Information (Category 4 Other Information)*. The Task Force believes that the greatest need for judgment, and therefore effort, by the auditor will in practice be on all the other remaining financial information and the non-financial information. The auditor would not be expected to have an understanding of all this other information. However, when considering it, the auditor may be guided as to which items in this remaining other information may merit further consideration based on whether the auditor expects to have a relevant understanding of them obtained during the audit. The Task Force proposes application material to:
- Describe the procedures the auditor may perform when determining which items in the remaining OI may merit further consideration; and (see paragraphs A39 and A41 of Agenda Item C.1)
  - Explain the factors the auditor may consider when determining the procedures necessary with respect to the other information. (See paragraph A40 of Agenda Item C.1)

#### **Matters for CAG Consideration**

2. Representatives are asked to share their views on the Task Force's proposal regarding the nature and extent of work effort when reading and considering the other information, in particular the guidance in relation to the four categories of other information described above.
3. Subject to the IAASB's discussion in September 2012, do Representatives agree that the Explanatory Memorandum to the Exposure Draft (ED) should include a discussion of the alternative option considered and the reasons why it is a less preferred option?

### **C. Reporting**

21. In response to comments received from the CAG and the IAASB, the Task Force has considered the auditor's reporting responsibilities with respect to the work effort relating to other information in the proposed ISA, taking into account the highly favorable responses to the Board's May 2011 Auditor Reporting Consultation Paper<sup>5</sup> in relation to this reporting matter and bearing in mind the expanded scope of the revised ISA.
22. The Task Force believes that it would be appropriate for the reporting responsibilities regarding OI to be addressed within the revised ISA 720 itself. In alignment with the Board's suggested

<sup>5</sup> The Board's Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, specifically asked for respondents' views as to whether there would be benefit in including a statement about the auditor's responsibilities regarding other information in the auditor's report. An overwhelming majority of respondents expressed support for doing so, either because this would increase transparency about the auditor's work in this area, or because it is already local practice. Many respondents also expressed support for some form of auditor conclusion with respect to the other information for greater clarity.

improvement regarding such reporting as set out in the June 2012 Invitation to Comment (ITC),<sup>6</sup> the Task Force proposes that the draft ISA include a requirement in paragraph 16 of **Agenda Item C.1** for the auditor to provide a statement in the auditor's report comprising the reporting elements set out in the ITC,<sup>7</sup> adjusted to be consistent with the scope of the proposed ISA. To illustrate how this statement may be worded, the Task Force proposes two examples addressing circumstances when the auditor has no material inconsistencies to report, and when there is a material inconsistency to report. (See paragraphs A52-A53 of **Agenda Item C.1**)

23. The Task Force felt it important to emphasize that even when the other information is received after the date of the auditor's report, the auditor has a responsibility to read and consider it if the other information is included in a document that is within the scope of the ISA. However, the other information will not be identified in the auditor's report as it was not available at the time the auditor's report was dated and, unless required by law or regulation, the auditor's report will not be updated or re-issued to refer to such other information. (See paragraph A54 of **Agenda Item C.1**)
24. The Task Force also believes that it will be necessary for the auditor to consider the implications of modifications of the auditor's opinion on the financial statements for the statement with respect to the other information. The Task Force has provided guidance to address this situation, including when the opinion is qualified due to disagreement with management, when the opinion is qualified due to a limitation of scope, and when there is an adverse opinion or a disclaimer of opinion. (See paragraphs 17 and A55-A58 of **Agenda Item C.1**)
25. Finally, recognizing that there are national legal or regulatory requirements for the auditor to report with respect to the other information, the Task Force believes that the proposed ISA should address the need to adapt the statement required by the proposed ISA to meet the legal or regulatory requirements and still be in compliance with the ISAs. For this purpose, the Task Force proposes to include a requirement and related application material based on how ISA 700 deals with similar circumstances when the auditor's report is prescribed by law or regulation. (See paragraphs 18 and A59 of **Agenda Item C.1**)

#### **Matters for CAG Consideration**

4. Representatives are asked to:
  - (a) Consider the Task Force's proposals above in relation to reporting;
  - (b) Raise any other matters deemed relevant to the auditor's reporting responsibilities with respect to the other information.

<sup>6</sup> Invitation to Comment: Improving the Auditor's Report. See IAASB CAG Agenda Item for report back on the March 2012 CAG discussion on Auditor Reporting.

<sup>7</sup> In June 2012, the IAASB issued its Invitation to Comment, *Improving the Auditor's Report*, (ITC) on auditor reporting setting out suggested improvements for the future auditor's report, including a statement in relation to other information. The ITC includes an illustrative example of a statement based on the auditor's responsibilities under extant ISA 720 when the auditor has no material inconsistencies to report.

### **IAASB Interaction with the IAASB CAG**

26. The substantive issues being raised on the project for the purposes of the September 2012 IAASB meeting are included in this paper. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

### **Material Presented – IAASB CAG PAPER**

Agenda Item C.1	Proposed ISA 720 (Revised) dated September 2012 (Clean)
Agenda Item C.2	Proposed Consequential and Conforming Amendments

### **Material Presented – IAASB CAG REFERENCE PAPER**

Agenda Item 2-A of the September 2012 IAASB Meeting – ISA 720 Issues and IAASB Task Force Proposals	<a href="#">[Link Pending]</a>
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## Appendix 1

### Project History

**Project:** Proposed Revised ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

#### Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2010	December 2009
Development of Proposed International Pronouncement (up to Exposure)	March 2010 September 2010 March 2011 September 2011 - March 2012 (project update)	March 2010 September 2010 March 2011 September 2011 December 2011 -
Exposure	September 2012	September 2012

#### CAG Discussions: Detailed References

<b>Project Commencement</b>	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-1 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245</a></p> <p>See CAG meeting minutes (in Agenda Item N of the following material):  <a href="http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211">http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</a></p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p>
<b>Development of Proposed International Pronouncement (Up to Exposure)</b>	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N-2 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0211&amp;ViewCat=1245</a></p> <p>See CAG meeting minutes (in Agenda Item N of the following):  <a href="http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211">http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</a></p>

	<p>See report back on March 2010 CAG meeting (in paragraph 5 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: (in Agenda Item M of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0214&amp;ViewCat=1364</a></p> <p>See CAG meeting minutes (in Agenda Item M of the following):  <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</a></p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following):  <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6094</a></p> <p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item O of the following):  <a href="http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&amp;ViewCat=1493">http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0248&amp;ViewCat=1493</a></p> <p>See CAG meeting minutes (in Agenda Item O of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Draft-March-2011-Public-Minutes-Marked-v1-03.pdf</a></p> <p>See report back on March 2011 CAG meeting (in paragraph 5 of the following)  <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</a></p> <p><u>September 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item F of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf">http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemG-ISA720-V1-06.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item F of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda Item A-Draft September 2011 Public Minutes-Marked-v3.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda Item A-Draft September 2011 Public Minutes-Marked-v3.pdf</a></p> <p>See report back on March September 2011 CAG meeting (in paragraph 5 of this CAG paper.</p> <p><u>March 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Item E6 of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf</a></p>
<b>Exposure</b>	This serves as the final discussion of the project prior to its anticipated approval as



	an exposure draft by the IAASB.
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