

ASA 720
(April 2006)

Auditing Standard ASA 720
*Other Information in
Documents Containing
Audited Financial Reports*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing Auditing Standard ASA 720 *Other Information in Documents Containing Audited Financial Reports*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 720 *Other Information in Documents Containing Audited Financial Reports* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Main Features

This Auditing Standard:

- (a) establishes mandatory requirements and provides explanatory guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial reports; and
- (b) provides explanatory guidance when all the other information is not available prior to the date of the auditor's report.

Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from AUS 212 (October 1995) *Other Information in Documents Containing Audited Financial Reports*

The main differences between this Auditing Standard and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation, AUS 212 (October 1995) *Other Information in Documents Containing Audited Financial Reports*, are that in this Auditing Standard:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 212 by the word 'should'.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 212 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard ASA 720 *Other Information in Documents Containing Audited Financial Reports* as set out in paragraphs 1 to 31, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

Dated 28 April 2006

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 720

Other Information in Documents Containing Audited Financial Reports

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial reports. This Auditing Standard is to be used when an annual report is involved, however it may also be relevant to other documents containing audited financial reports.
- 5 **The auditor shall read the other information to identify material inconsistencies with the audited financial report.**
- 6 A "material inconsistency" exists when other information contradicts information contained in the audited financial report. 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 report.
- 7 An entity ordinarily issues on an annual basis a document which includes its audited financial report together with the auditor's report

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thereon. This document is frequently referred to as the “annual report”. In issuing such a document, an entity may also include, either by law or custom, other financial and non-financial information. For the purpose of this Auditing Standard, such other financial and non-financial information is called “other information”.

- 8 Examples of other information include 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 and selected quarterly data.
- 9 In certain circumstances, the auditor has a statutory or contractual obligation to report specifically on other information. In other circumstances, the auditor has no such obligation. However, under paragraph 5 of this Auditing Standard, the auditor needs to give consideration to such other information when issuing an auditor’s report on the financial report, as the credibility of the audited financial report may be undermined by inconsistencies which may exist between the audited financial report and other information.
- 10 Some jurisdictions require the auditor to apply specific procedures to certain of the other information, for example, required supplementary data and interim financial information. If such other information is omitted or contains deficiencies, the auditor may be required to refer to the matter in the auditor’s report.
- 11 When there is an obligation to report specifically on other information, the auditor’s responsibilities are determined by the nature of the engagement and by local legislation and Auditing Standards. When such responsibilities involve the review of other information, the auditor ordinarily follows the mandatory requirements and explanatory guidance on review engagements in the appropriate Auditing Standard.

Access to Other Information

- 12 In order that an auditor can consider other information included in the annual report, timely access to such information will be required. Ordinarily, the auditor makes appropriate arrangements with the entity to obtain such information prior to the date of the auditor’s report. In certain circumstances, all the other information may not be available prior to such date. In these circumstances, the auditor would ordinarily follow paragraphs 25 to 30 of this Auditing Standard.

Consideration of Other Information

- 13 The objective and scope of an audit of a financial report are formulated on the premise that the auditor's responsibility is restricted to information identified in the auditor's report. Accordingly, the auditor has no specific responsibility to determine that other information is properly stated.

Material Inconsistencies

- 14 **If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial report or the other information needs to be amended.**
- 15 **If an amendment is necessary to the audited financial report and the entity refuses to make the amendment, the auditor shall express a qualified or adverse opinion.**
- 16 **If an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall, in accordance with ASA 701 *Modifications to the Auditor's Report*, include in the auditor's report an emphasis of matter paragraph describing the material inconsistency.**
- 17 The actions taken, such as not issuing the auditor's report or withdrawing from the engagement, will depend upon the particular circumstances and the nature and significance of the inconsistency. Ordinarily, the auditor would also consider obtaining legal advice as to further action.

Material Misstatements of Fact

- 18 While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent material misstatement of fact.
- 19 For the purpose of this Auditing Standard, a "material misstatement of fact" in other information exists when such information, not related to matters appearing in the audited financial report, is incorrectly stated or presented.
- 20 **If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management and those charged with governance.**

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- 21 When discussing the matter with the entity's management and those charged with governance, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's enquiries, and would ordinarily need to consider whether valid differences of judgement or opinion exist.
- 22 **When the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with an expert, such as the entity's lawyers, and shall consider the advice received.**
- 23 **If the auditor concludes that there is a material misstatement of fact in the other information which management and those charged with governance refuse to correct, the auditor shall consider taking further appropriate action.**
- 24 Ordinarily, the actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

Availability of Other Information After the Date of the Auditor's Report

- 25 When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would ordinarily read the other information at the earliest possible opportunity thereafter to identify material inconsistencies.
- 26 If on reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, the auditor would ordinarily determine whether the audited financial report or the other information need revision.
- 27 When revision of the audited financial report is appropriate, the mandatory requirements and explanatory guidance in ASA 560 *Subsequent Events*, would be followed.
- 28 When revision of the other information is necessary and the entity agrees to make the revision, the auditor would ordinarily carry out the audit procedures necessary under the circumstances. The audit procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial report, the auditor's report thereon and the other information, are informed of the revision.

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- 29 **When revision to the other information is necessary but management and those charged with governance refuse to make the revision, the auditor shall consider taking further appropriate action.**
- 30 Ordinarily, the actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

Conformity with International Standards on Auditing

- 31 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 720 *Other Information in Documents Containing Audited Financial Statements*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Auditing Standard and ISA 720 are:
- ISA 720 provides flexibility for an auditor to consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency in the other information or taking other actions. This Auditing Standard does not provide the option of taking other actions and the auditor shall include an emphasis of matter paragraph in the auditor's report (paragraph 16).
 - ISA 720 includes a Public Sector Perspective section. This Auditing Standard does not include a separate section on the public sector as it is sector neutral.

Compliance with this Auditing Standard enables compliance with ISA 720.