

## AU-C Section 720

# ***Other Information in Documents Containing Audited Financial Statements***

(Supersedes SAS No. 8 and with SAS No. 119 supersedes SAS No. 29.)

Source: SAS No. 118; SAS No. 122; SAS No. 123.

**Effective for audits of financial statements for periods beginning on or after December 15, 2010, unless otherwise indicated. Early application is permitted.**

### NOTE

To address practice issues, Statement on Auditing Standards (SAS) No. 118, *Other Information in Documents Containing Audited Financial Statements*, was issued in February 2010 as a SAS resulting from the Clarification and Convergence Project of the Auditing Standards Board, and became effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 118 was previously codified as AU section 550 until December 2013, when all AU sections were deleted from AICPA *Professional Standards*, as described in the AU-C Foreword. SAS No. 122, *Statement on Auditing Standards: Clarification and Recodification*, redesignated AU section 550 as section 720 but did not supersede SAS No. 118.

This section contains conforming changes necessary in specific paragraphs and footnotes due to the issuance of SAS No. 122.

## Introduction

### Scope of This Section

**.01** This section addresses the auditor's responsibility with respect to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the financial statements does not cover other information, and the auditor has no responsibility for determining whether such information is properly stated. This section establishes the requirement for the auditor to read the other information of which the auditor is aware because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. (Ref: par. .A1–.A2) [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**.02** In this section, *documents containing audited financial statements* refers to annual reports (or similar documents) that are issued to owners (or similar stakeholders) and annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon. This section

also may be applied, adapted as necessary in the circumstances, to other documents to which the auditor, at management's request, devotes attention. (Ref: par. .A3–.A5)

## Effective Date

.03 This section is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

## Objective

.04 The objective of the auditor is to respond appropriately when the auditor becomes aware that 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.

## Definitions

.05 For purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:

**Inconsistency.** Other information that conflicts with information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

**Misstatement of fact.** Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

**Other information.** Financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon, excluding required supplementary information.<sup>1</sup>

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

## Requirements

### Reading Other Information

.06 The auditor should read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.

.07 The auditor should make appropriate arrangements with management or those charged with governance to obtain the other information prior to the

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<sup>1</sup> *Required supplementary information* is defined in paragraph .04 of section 730, *Required Supplementary Information*. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

report release date.<sup>2</sup> If it is not possible to obtain all of the other information prior to the report release date, the auditor should read such other information as soon as practicable. (Ref: par. .A6)

.08 The auditor should communicate with those charged with governance the auditor's responsibility with respect to the other information, any procedures performed relating to the other information, and the results.

## Material Inconsistencies

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

### **Material Inconsistencies Identified Prior to the Date of the Auditor's Report That Require Revision of the Audited Financial Statements**

.10 When the auditor identifies a material inconsistency prior to the date of the auditor's report that requires revision of the audited financial statements and management refuses to make the revision, the auditor should modify the auditor's opinion in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS Nos. 122 and 123.]

### **Material Inconsistencies Identified After the Date of the Auditor's Report But Prior to the Report Release Date That Require Revision of the Audited Financial Statements**

.11 When the auditor identifies a material inconsistency after the date of the auditor's report but prior to the report release date that requires revision of the audited financial statements, the auditor should apply the relevant requirements in section 560, *Subsequent Events and Subsequently Discovered Facts*.<sup>3</sup> [Paragraph added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

### **Material Inconsistencies Identified Prior to the Report Release Date That Require Revision of the Other Information**

.12 When the auditor identifies a material inconsistency prior to the report release date that requires revision of the other information and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and (Ref: par. .A7–.A8)

- a. include in the auditor's report an other-matter paragraph describing the material inconsistency, in accordance with section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.<sup>4</sup>

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<sup>2</sup> See paragraph .06 of section 230, *Audit Documentation*, for the definition of *report release date*. [Footnote revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

<sup>3</sup> Paragraphs .12–.14 of section 560, *Subsequent Events and Subsequently Discovered Facts*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

<sup>4</sup> Paragraph .08 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Footnote renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

- b. withhold the auditor's report; or
- c. when withdrawal is possible under applicable law or regulation, withdraw from the engagement.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Paragraph renumbered to reflect conforming changes necessary due to the issuance of SAS No. 123.]

### ***Material Inconsistencies Identified Subsequent to the Report Release Date***

**.13** When revision of the audited financial statements is necessary as a result of a material inconsistency with other information and the auditor's report on the financial statements has already been released, the auditor should apply the relevant requirements in section 560, *Subsequent Events and Subsequently Discovered Facts*.<sup>5</sup> [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

**.14** When revision of the other information is necessary after the report release date and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances. (Ref: par. .A9) [Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

**.15** When revision of the other information is necessary after the report release date but management refuses to make the revision, the auditor should notify those charged with governance of the auditor's concerns regarding the other information and take any further appropriate action. (Ref: par. .A10) [Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

### **Material Misstatements of Fact**

**.16** If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor should discuss the matter with management. (Ref: par. .A11) [Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

**.17** When, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor should request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor should consider the advice received by the entity in determining whether such matter is a material misstatement of fact. [Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

**.18** When the auditor concludes that there is a material misstatement of fact in the other information that management refuses to correct, the auditor should notify those charged with governance of the auditor's concerns regarding the other information and take any further appropriate action. (Ref: par. .A12) [Paragraph renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

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<sup>5</sup> Paragraphs .15–.18 of section 560, *Subsequent Events and Subsequently Discovered Facts*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Footnote renumbered to reflect conforming changes necessary due to the issuance of SAS No. 123.]

## Application and Other Explanatory Material

### Scope of This Section (Ref: par. .01–.02)

**.A1** This section also addresses other information for which a designated accounting standards setter<sup>6</sup> has issued standards or guidance regarding the format to be used and content to be included when such information is voluntarily presented in a document containing the audited financial statements and the auditor's report thereon. The auditor's responsibility for other information presented in a document containing audited financial statements that is required to be included by a designated accounting standards setter is addressed in section 730, *Required Supplementary Information*. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**.A2** The auditor is not required to make reference to the other information in the auditor's report on the financial statements. However, the auditor may include an other-matter paragraph disclaiming an opinion on the other information. For example, an auditor may choose to include a disclaimer on the other information when the auditor believes that the auditor could be associated with the information and the user may infer a level of assurance that is not intended. Exhibit A, "Example of an Other-Matter Paragraph to Disclaim an Opinion on Other Information," has an example of how an auditor may word such a disclaimer of opinion on other information. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**.A3** Other information may comprise the following:

- A report by management or those charged with governance on operations
- Financial summaries or highlights
- Employment data
- Planned capital expenditures
- Financial ratios
- Names of officers and directors
- Selected quarterly data

**.A4** For purposes of GAAS, other information does not encompass, for example, the following:

- A press release or similar memorandum or cover letter accompanying the document containing audited financial statements and the auditor's report thereon.
- Information contained in analyst briefings.
- Information contained on the entity's website. Websites are a means of distributing information and are not, themselves, documents containing audited financial statements.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

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<sup>6</sup> *Designated accounting standards setter* is defined in paragraph .04 of section 730. [Footnote renumbered and revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. Footnote subsequently renumbered, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

**Considerations Specific to Governmental Entities (Ref: par. .02)**

.A5 The term *annual reports of governments* is intended to include comprehensive annual reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.

**Reading Other Information (Ref: par. .07)**

.A6 Obtaining the other information prior to the report release date enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis. An agreement with management regarding when other information will be available may be helpful. The auditor may delay the release of the auditor's report until management provides the other information to the auditor.

**Material Inconsistencies****Material Inconsistencies Identified Prior to the Report Release Date (Ref: par. .11)**

.A7 When management refuses to revise the other information, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**Considerations Specific to Governmental Entities (Ref: par. .11)**

.A8 In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be possible under law or regulation. In such cases, the auditor may issue a report to those charged with governance and the appropriate statutory body, if applicable, giving details of the inconsistency. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**Material Inconsistencies Identified Subsequent to the Report Release Date (Ref: par. .13–.14)**

.A9 When revision of other information is necessary after the report release date and management agrees to make the revision, the auditor's procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon, and the other information are informed of the need for revision. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

.A10 When revision of other information is necessary after the report release date but management refuses to make the revision, appropriate further actions by the auditor may include obtaining legal advice. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

**Material Misstatements of Fact (Ref: par. .15–.17)**

.A11 When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the other information and management's responses to the auditor's inquiries and may conclude that valid differences of judgment or opinion exist.

**.A12** When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining legal advice, withholding the auditor's report if such report has not been released, or withdrawing from the engagement. [Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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## Exhibit A—Example of an Other-Matter Paragraph to Disclaim an Opinion on Other Information

The following is an example of an other-matter paragraph that the auditor may use to disclaim an opinion on other information:

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The *[identify the other information]* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

[Revised, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]



[.A14]

**Exhibit B—[Reserved]**

[Exhibit deleted, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122. See appendix B, *Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards.*]

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