

# Audit & Assurance Alert

## CANADIAN AUDITING STANDARDS (CAS)

JUNE 2017

### CAS 720 – The Auditor’s Responsibilities Relating to Other Information

This *Audit & Assurance Alert* is being issued to raise awareness about Canadian Auditing Standard (CAS) 720, *The Auditor’s Responsibilities relating to Other Information*. This revised standard deals with the auditor’s responsibilities relating to other information (OI), whether financial or non-financial information (other than financial statements and the auditor’s report thereon), included in an entity’s annual report. An annual report is a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.

## Why Should I Read this Alert?

This *Alert* will provide practical considerations for auditors to help them determine when this standard applies and will highlight changes in the standard and other related requirements.

CAS 720 deals with the auditor's responsibilities with respect to OI released by an entity (typically in the form of an annual report). The objectives of CAS 720 are to consider whether a material inconsistency exists between the OI and the financial statements (or the auditor's knowledge obtained in the audit), and if so, to respond appropriately. Additionally, the standard also enhances the transparency of the auditor's responsibilities with respect to OI by including a new OI section in the Auditor's report.

## When Are These Requirements Effective?

These requirements are effective for all audits of financial statements for periods ending on or after December 15, 2018.

## What Is Other Information?

OI is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. Other information is commonly issued by publicly listed entities; however, CAS 720 is applicable to all audits (listed or non-listed entities) where other information is issued (E.g. an annual report issued by a not-for-profit organization).

The auditor is now required to determine, through discussion with management, which document(s) expected to be issued by the entity meet the definition of OI. Often times the document(s) that comprise the annual report are clear based on law, regulation or custom. In cases where it is unclear as to whether the document falls within the scope of CAS 720, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which documents comprises the annual report.

In Canada, examples of common documents that would qualify as OI are:

- Management Discussion and Analysis (MD&A)
- Management Report of Fund Performance issued by investment funds under the provisions of Canadian securities legislation
- Financial Statement Discussions and Analysis or equivalent documents issued by public sector entities
- Form 10k for U.S. Securities and Exchange Commission filers

Some common examples of documents that are outside the scope of CAS 720 include:

- The Annual Information Form (AIF)
- Certifications of annual filings with Canadian securities regulatory authorities
- Statements of executive compensation
- The Annual Information Return filed by pension plans with the Office of the Superintendent of Financial Institutions and the Canada Revenue Agency

It is possible that future changes in securities law may result in some of the above documents being in scope of CAS 720.

### **Obtaining the Other Information**

Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to be made to the financial statements, the auditor's report, or the other information prior to their issuance. In Canada, it is common in practice for management to provide the auditor with a "close to final" version of a document within the scope of CAS 720. Deciding upon which version of the other information to perform the procedures required by the CAS is a matter of professional judgement. The reporting is typically based on the final version of the other information. When the auditor has performed procedures on a "close to final" version of the other information, but the final version is not expected to be obtained until after the date of the auditor's report, then the auditor may not be able to report that the other information has been obtained before the date of the auditor's report. The approval process of the other information, if any, and the procedures the entity follows in preparing and finalizing the other information in view of its management and governance structures may be considered in order to determine whether the other information obtained is the final version. Paragraph A15 of CAS 720 clarifies that where those charged with governance are to approve the OI prior to its issuance by the entity, the final version of such OI is the one that has been approved by those charged with governance for issuance.

The audit engagement letter may make reference to an agreement with management to make available to the auditor the OI in a timely manner, and if possible prior to the date of the auditor's report.

## Reading and Considering the Other Information

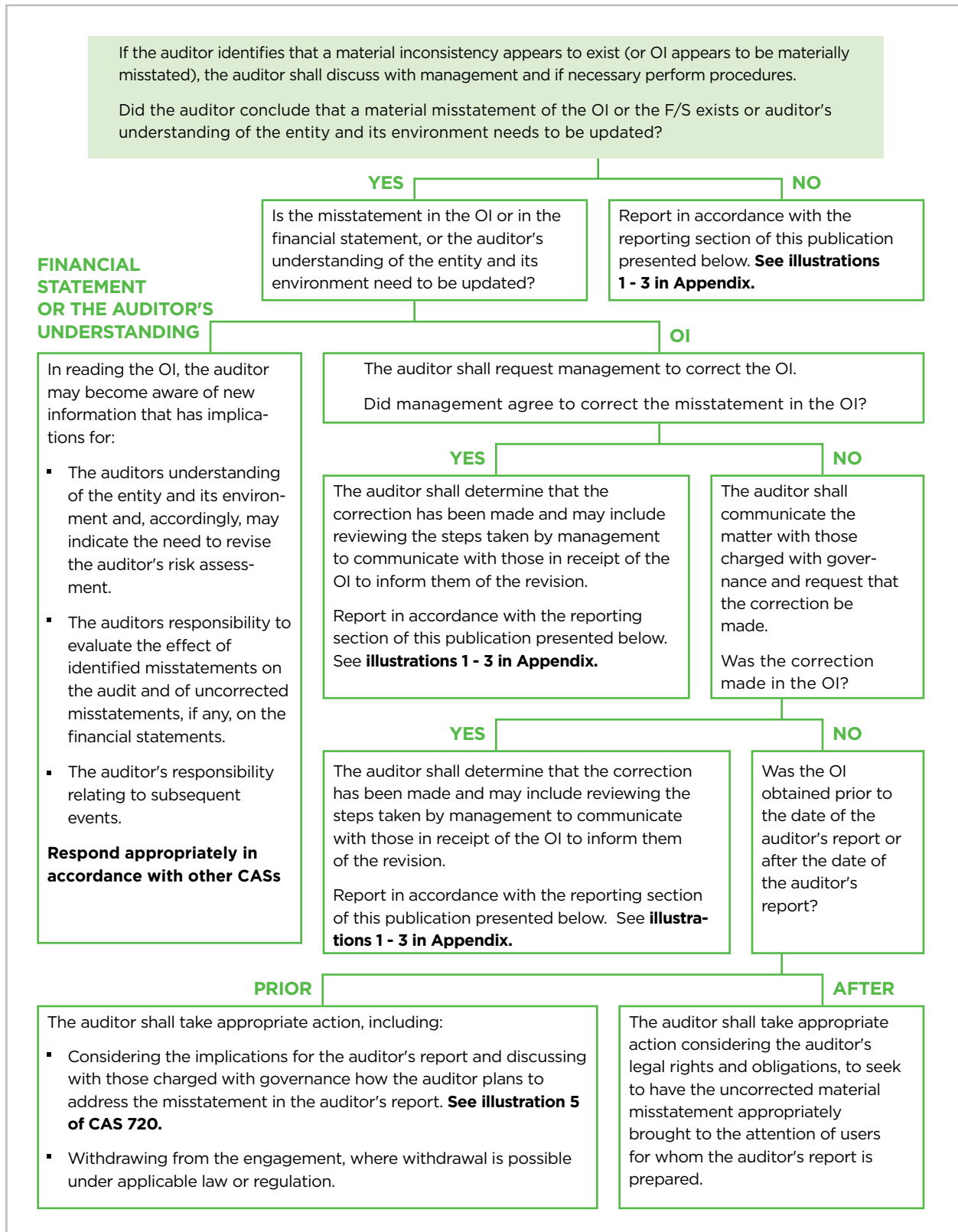
CAS 720 expands the requirements for the auditor when reading the OI and considering whether there is a material inconsistency with the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements. In addition to the requirement to read the OI and consider whether there is a material inconsistency with the financial statements, the auditor is also required to:

- consider whether there is a material inconsistency between the OI and the auditor's knowledge obtained during the course of the audit; and
- remain alert for indications that other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be material misstated.

These requirements apply regardless if the auditor obtains the OI prior to the auditor's report date or after the auditor's report date. When some or all of the OI will not be available until after the date of the auditor's report, the auditor shall request management to provide written representation that the final version of the OI will be provided to the auditor prior to its issuance by the entity, such that the auditor can complete the procedures.

## Responding to a Material Inconsistency

The following decision tree has been provided to assist in situations where the auditor identifies a potential material inconsistency.



## Reporting

When OI is issued by an entity, paragraph 22 of CAS 720 requires the following information to be included in the auditor's report depending on whether the entity being audited is listed or not, and the status of the other information received by the auditor as of the report date:

Scenario	Listed Entity	Non-Listed Entity
<p><b>The auditor has obtained all of the other information prior to the date of the auditor's report</b></p> <p><i>See Illustration 1 in the Appendix</i></p>	<ul style="list-style-type: none"> <li>a. A statement that management is responsible for the other information;</li> <li>b. An identification of the other information obtained by the auditor prior to the date of the auditor's report;</li> <li>c. A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;</li> <li>d. A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by CAS 720; and</li> <li>e. Either a statement that the auditor has nothing to report or If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information</li> </ul>	<p>The same requirements apply as for audits of listed entities.</p>
<p><b>The auditor expects to obtain all of the other information after the date of the auditor's report</b></p> <p><i>See Illustration 2 in the Appendix</i></p>	<p>In addition to requirements a), c) and d) listed above, the auditor's report is required to include:</p> <ul style="list-style-type: none"> <li>f. an identification of the other information expected to be obtained after the date of the auditor's report.</li> </ul>	<p>No reporting requirements for other information obtained after the date of the auditor's report, although the auditor still has responsibilities under CAS 720 to perform the necessary procedures on the other information.</p>

Scenario	Listed Entity	Non-Listed Entity
<p><b>The auditor has obtained some of the other information prior to the date of the auditor's report and expects to obtain additional other information after the date of the auditor's report</b></p> <p><i>See Illustration 3 in the Appendix</i></p>	All of the requirements a) through f) apply.	<p>All of the requirements (a) to (e) apply for OI obtained prior to the date of the auditor's report.</p> <p>No reporting requirements for OI expected to be obtained after the date if the auditor's report</p>

## Reissuing or Amending a Previously Issued Auditor's Report

In circumstances when the auditor provides a new auditor's report, or amends the auditor's report that was previously issued, the auditor may need to reconsider the auditor's responsibilities relative to the other information, the nature and extent of which would depend on whether the auditor restricts the audit procedures in accordance with paragraph 12 of CAS 560.<sup>1</sup>

If the auditor does restrict the audit procedures on subsequent events to the amendment of the financial statements, then the auditor shall either:

1. Amend the auditor's report to include an additional date restricted to the amendment of the financial statements or;
2. Provide a new or amended auditor's report that includes a statement in an Emphasis or Matter paragraph or Other Matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements. In either case, the auditor is not required to report on any other information obtained after the date of the original auditor's report.

If the auditor does not restrict the audit procedures on subsequent events to the amendment of the financial statements, then the Other Information section in the reissued auditor's report would cover all other information obtained as of the date of the reissued auditor's report. For audits of listed entities, the Other Information section would need to be updated to identify any other information that is expected to be obtained after the date of the reissued auditor's report.

<sup>1</sup> Paragraph 12 of CAS 560 states that where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events to that amendment.

## Implications When Reporting in Other Jurisdictions

There may be implications to the auditor's report when an entity has reporting requirements in other jurisdictions, including the United States. At the time of this writing, the PCAOB has not concluded if they will adopt similar standard on Other Information and as a result there may be a difference in reporting.

## Other Resources

1. **Basis for Conclusions: Canadian Auditing Standard (CAS) 720, *The Auditor's Responsibilities Related to Other Information and Related Conforming Amendments***
2. **Basis for Conclusions: International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Related to Other Information and Related Conforming Amendments***
3. CPA Canada Guide—Reporting Implications of the CASs



## Appendix—Illustrations

Illustration 1—In the circumstance of an auditor’s report of any entity, whether listed or not, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information, the other information section of the auditor’s report would be presented as follows:

### Other Information

Management is responsible for the other information. The other information comprises the [information included in the X report, but does not include the financial statements and our auditor’s report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Illustration 2—In the circumstance of an auditor’s report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report, the other information section of the auditor’s report would be presented as follows:

### Other Information

Management is responsible for the other information. The other information comprises the [information included in the X report, but does not include the financial statements and our auditor’s report thereon]. The X report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Illustration 3— In the circumstance of an auditor’s report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report, the other information section of the auditor’s report would be presented as follows:

### **Other Information**

Management is responsible for the other information. The other information comprises the X report (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the Y report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Comments

Comments on this Audit & Assurance Alert, or suggestions for future Alerts should be sent to either:

**Mike Wynen, CPA, CA**

*Principal, Research, Guidance and Support*

Chartered Professional Accountants of Canada

277 Wellington Street West

Toronto ON M5V 3H2

Email: [mwynen@cpacanada.ca](mailto:mwynen@cpacanada.ca)

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