

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

June 2017

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard (CAS) [720, The Auditor's Responsibilities Relating to Other Information](#).

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for International Standards on Auditing (ISA) 720 is available on the IAASB website. It provides information on how the IAASB dealt with comments received on significant matters in response to its Exposure Draft of ISA 720 issued in 2014 (ED-ISA 720 (2014)).
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, "The Auditor's Responsibilities Relating to Other Information: Canadian Amendments" (ED-Canadian Amendments). This information is set out below.

Background

The IAASB's Development of ISA 720

In November 2012, the IAASB issued its first Exposure Draft of proposed ISA 720. Respondents to the 2012 Exposure Draft generally supported the IAASB's intention to strengthen and clarify the auditor's responsibilities with respect to other information, and to clarify the scope of the documents covered by ISA 720. There was also broad support for introducing a separate section in the auditor's report that would provide transparency about the auditor's responsibilities relating to other information.

However, among other matters, respondents raised significant concerns about how specific proposals of the 2012 Exposure Draft were formulated. In general, they found the proposals did not clearly articulate the auditor's objectives, the scope of documents covered, and the work effort expected from the auditor. Some respondents also believed that the proposals would not be workable or would lead to divergent practices, resulting in unintended consequences that are contrary to the benefits sought by the IAASB.

In response to stakeholders' input, the IAASB took a substantively different approach to fulfilling the objectives of revising ISA 720. In March 2014, the IAASB approved ED-ISA 720 (2014). In December 2014, it approved ISA 720 and conforming amendments to a number of other ISAs. In March 2015, the Public Interest Oversight Board confirmed that the IAASB followed due process and ISA 720 was issued in April 2015.

The AASB's Development of CAS 720

Consistent with its due process, the AASB issued a corresponding Exposure Draft in 2012 and Re-exposure Draft in 2014 to obtain Canadian stakeholders' input on the IAASB's Exposure Drafts. The AASB's 2012 Exposure Draft proposed to exclude offering documents from the scope of [CAS 720](#). Offering documents are excluded from the scope of final ISA 720. Consequently, this proposed Canadian amendment is no longer necessary.

The AASB's 2014 Re-exposure Draft proposed Canadian amendments relating to translated annual reports, clarifying documents within the scope of [CAS 720](#) and relevant ethical requirements. The development of [CSOA 5000, Use of the Practitioner's Communication or Name](#), has clarified the practitioner's responsibilities relating to translated information. Therefore, the proposed Canadian amendment regarding translated annual reports is no longer necessary. Responses from Canadian stakeholders on clarifying documents within the scope of CAS 720 and relevant ethical requirements informed the Board's development of an omnibus exposure draft on Canadian amendments to ISA 720 (the ED-Canadian Amendments) issued by the AASB in November 2015. The ED-Canadian Amendments proposed the following Canadian amendments to ISA 720 in adopting it as CAS 720:

- (a) clarifying the documents within the scope of [CAS 720](#);
- (b) amending references to relevant ethical requirements; and
- (c) enhancing the description of the auditor's responsibilities relating to other information expected to be obtained after the date of the auditor's report in the illustrative reports.

There were 15 responses to ED-Canadian Amendments (identified below). The Board also conducted further roundtable discussions throughout Canada with different stakeholder groups.

The AASB approved [CAS 720](#) at its meeting in April 2017. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing CAS 720 prior to its issuance in the CPA Canada Handbook – Assurance.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

Clarifying the Documents within the Scope of CAS 720

1. ED-Canadian Amendments proposed to include a Canadian-only application and other explanatory material paragraph [CA5A](#) in CAS 720 to provide examples of documents commonly issued in Canada that are within the scope of CAS 720. The documents include the Management Discussion and Analysis, the Management Report of Fund Performance, equivalent documents in the public sector such as the Financial Statements discussion and Analysis, and the annual report. Respondents to ED-Canadian Amendments expressed agreement with the proposed examples.

Amending References to Relevant Ethical Requirements

2. ISA 720 includes two paragraphs that refer to paragraph 110.2 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). ED-Canadian Amendments proposed to amend the references to the IESBA Code in paragraphs [C4](#) and [CA38](#) of CAS 720 to reflect relevant ethical requirements applicable in Canada. Canadian stakeholders generally agreed with the proposal.

3. One respondent to ED-Canadian Amendments suggested that a reference to "material" be included in the description of relevant ethical requirements. The AASB concluded that a reference to "material" is not necessary. The description of relevant ethical requirements, as set out in paragraphs [C4](#) and [CA38](#), reflects the provincial Code of Professional Conduct applicable in Canada, which does not include references to "material".

Enhancing the Description of the Auditor's Responsibilities Relating to Other Information Expected to Be Obtained after the Date of the Auditor's Report in the Illustrative Reports

4. The example auditor's reports in Illustrations 2 and 4 of Appendix 2 of ISA 720 contain a paragraph describing the auditor's responsibilities relating to other information expected to be obtained after the date of the auditor's report. The paragraph, presented in square brackets with footnotes 14 and 23, states:

[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 and [describe actions applicable in the jurisdiction]]. 14 , 23
5. The footnotes limit the circumstances when an auditor's report might contain the paragraph. Including this paragraph in all circumstances when other information of a listed entity is expected to be obtained after the date of the auditor's report:
 - (a) provides a clearer articulation of paragraph [22\(d\)](#), which requires the report to include "a description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by the CAS"; and
 - (b) clarifies that the auditor's communication of any material misstatements identified is directed primarily to those charged with governance. This helps reduce the likelihood of financial statement users erroneously believing that the auditor is able to easily communicate material misstatements of the other information directly to them.
6. The paragraph describing the auditor's responsibilities relating to other information expected to be obtained after the date of the auditor's report also refers to actions applicable in the jurisdiction. The AASB is not aware of any additional requirements under Canadian securities legislation relating to the auditor's responsibilities when the auditor becomes aware of a material misstatement in the other information.
7. Accordingly, ED-Canadian Amendments proposed to:
 - (a) delete the footnote; and
 - (b) remove the reference to "and [describe actions applicable in the jurisdiction]".
8. All respondents to ED-Canadian Amendments agreed with deleting the footnote.
9. With respect to the proposed deletion of "[describe actions applicable in the jurisdiction]", most stakeholders agreed with the AASB's proposal. However, some stakeholders disagreed with the proposal as it is possible that the practitioner may have responsibilities in addition to communicating with those charged with governance.
10. The AASB noted that there are currently no Canadian securities regulatory requirements for the auditor to take specific actions relating to material misstatements of the other information. Therefore, references to "and [describe actions applicable in the jurisdiction]" may be confusing. Accordingly, the Board concluded that the deletion is appropriate.

Other Significant Matters Considered by the AASB

Clarifying the Documents Outside the Scope of CAS 720

11. To assist Canadian stakeholders understand the scope of [CAS 720](#), ED-Canadian Amendments proposed to include examples of documents commonly issued in Canada that are within its scope, as discussed in paragraph 1 of this Basis

for Conclusions. In addition, ED-Canadian Amendments indicated that the Basis for Conclusions would include the following examples of documents normally considered to be outside the scope of CAS 720:

- (a) the Annual Information Form;
 - (b) certifications of annual filings with Canadian securities regulatory authorities;
 - (c) statements of executive compensation; and
 - (d) the Annual Information Return filed by pension plans with the Office of the Superintendent of Financial Institutions and the Canada Revenue Agency.
12. Most respondents to ED-Canadian Amendments agreed with the examples. However, one respondent requested clarification on how the AASB reached this conclusion and one stakeholder indicated that certifications on internal controls should be included within the scope of [CAS 720](#).
13. The term "annual report" is broadly defined in ISA 720 so that it is capable of being applied in different corporate reporting regimes and practices in many jurisdictions and circumstances around the world. To make such a broad definition practicable within a particular jurisdiction such as Canada, an interpretation of the definition is necessary.
14. Consistent with paragraph [A11](#), the AASB believes a document's purpose is a key differentiating factor in determining whether it is an annual report. Its purpose must be to provide owners (or similar stakeholders) with information on the entity's operations, financial results and financial position as set out in the financial statements.
15. The AASB reaffirmed that the examples of documents normally considered to be outside the scope of [CAS 720](#) are appropriate. In particular, the annual certification is not an annual report because its intended purpose is not to provide owners with information on the entity's operations, financial results and financial position as set out in the financial statements. In the Board's view, including documents that do not strictly meet this definition could be confusing. Doing so would call into question whether other documents that possess some characteristics of an annual report should be in the scope of CAS 720.
16. These examples of documents normally considered to be outside the scope of [CAS 720](#) are intended to clarify its scope. Auditors may have additional responsibilities beyond CAS 720 related to those documents. Future changes in securities law may result in these documents falling within its scope.

Identifying Other Information of a Listed Entity Expected to Be Obtained after the Date of the Auditor's Report

17. Paragraph 22(b) of ISA 720 requires:
- (a) for an audit of any entity (including a listed or a non-listed entity), the auditor's report to identify other information obtained by the auditor prior to the date of the auditor's report; and
 - (b) for an audit of a listed entity, the auditor's report to also identify other information expected to be obtained after the date of the auditor's report.
18. ED-Canadian Amendments indicated that, after lengthy deliberations about the implications in the context of the Canadian environment, the AASB considered, but decided not to propose, an amendment to limit the latter requirement to other information required by Canadian securities legislation. The Board did not propose the amendment because it believes that the public interest benefits of enhanced transparency outweigh the practical difficulties associated with identifying other information not yet received by the auditor. However, given the AASB's extensive discussions on this issue, the Board sought out Canadian stakeholders' views on this matter in ED-Canadian Amendments.
19. Stakeholders who supported the AASB's position to not make the amendment stressed the importance of enhanced transparency of the auditor's responsibilities relating to other information expected to be obtained after the date of the auditor's report. They said that the public interest benefits of enhanced transparency outweigh the practical difficulties associated with identifying other information not yet received by the auditor.
20. Stakeholders who supported making the amendment expressed concerns regarding potential practical difficulties associated with identifying other information not yet received by the auditor. They said that the amendment appears consistent with the IAASB's intent, which limits the application of the reporting requirements relating to other information expected to be obtained after the date of the auditor's report to "those entities where law or regulation was most likely to clearly set out the expected nature, content and timing of such other information." However, the AASB notes that other jurisdictions, such as Australia, did not limit the identification of other information expected to be issued by a listed entity based on this view.
21. The AASB carefully considered this matter and decided not to make the amendment for the following reasons:
- (a) The Board acknowledges the potential practical difficulties associated with identifying other information not yet obtained by the auditor. However, it believes that some of the practical difficulties could be addressed through non-authoritative guidance without amending the CAS.
 - (b) Its "overriding goal is to adopt ISAs into the Assurance Handbook with minimal amendment" under its current mandate. Given that the majority of written responses and a significant minority of participants at the consultation sessions expressed support for not making the amendment, the Board believes that there is inadequate support for deviating from its mandate.
 - (c) After lengthy deliberations of stakeholders' input, the AASB did not identify any matters that would persuade it that the amendment is in the public interest.

Effective Date

22. The AASB considered issues relating to the effective date of [CAS 720](#). The Board thought that it should be the same as the date of the CASs resulting from its project on new auditor reporting standards. The effective date of CAS 720 is for financial statement periods ending on or after December 15, 2018.
23. Because ISA 720 is effective for financial statement periods ending on or after December 15, 2016, auditors performing audits of financial statements in accordance with the CASs for periods ending on or after this date should not represent compliance with the ISAs unless they have also complied with ISA 720.

List of Respondents to the 2012 ED, 2014 Re-ED and ED-Canadian Amendments

Respondents	2012 Exposure Draft	2014 Re-exposure Draft	ED-Canadian Amendments
Ackerman, Levi			v
BDO Canada LLP			v
Canadian Public Accountability Board			v
Canadian Securities Administrators			v
Catholic Centre for Immigrants			v
D&H Group LLP		v	
Deloitte LLP		v	v
Ernst & Young LLP	v		v
Grant Thornton LLP and Raymond Chabot Grant Thornton LLP			v
Hydro Quebec		v	
MNP LLP		v	v
Office of the Auditor General of Alberta			v
Office of the Auditor General of Canada		v	v
Office of the Auditor General of Manitoba			v
Pinsky, Donna		v	
Provincial Auditor of Saskatchewan	v	v	v
PwC LLP			v
Université Laval		v	
Respondent who requested confidentiality			v
	2	8	15

Footnotes

14. This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

23. This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

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