THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

[SA 720 – w.e.f. 01 April 2010]

This SA deals with the auditor's responsibility in relation to other information in documents (for example, Annual Report) containing audited financial statements and the auditor's report thereon.

Purpose of this standard: An auditor is not required to express an opinion on other information in documents containing audited financial statements and his report. However, the auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information.

***Requirements of SA*:**

(a) ***Reading Other Information*:** The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable.

(b) ***Auditor's action in case of identification of Material Inconsistencies***

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

(i) *Inconsistencies identified prior to the Date of Auditor's Report*:

(1) When revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion in accordance with relevant Standard.

(2) When revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance; and

(a) Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with relevant Standard; or

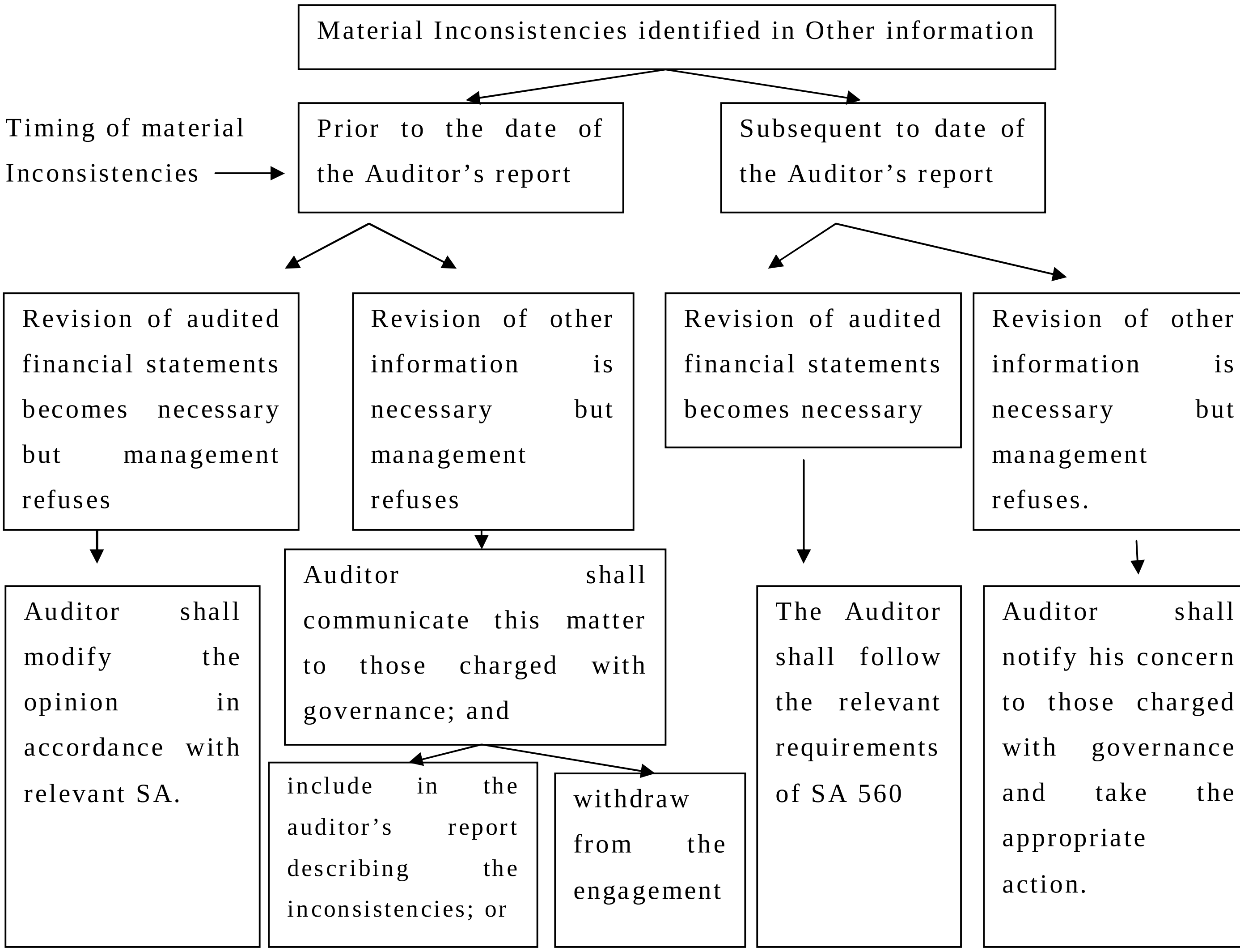
(b) Where withdrawal is legally permitted, withdraw from the engagement.

(ii) *Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report*

(1) When revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in SA 560 (Revised).

(2) When revision of the other information is necessary and management agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances.

(3) When revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action.



<u>Auditor action in case of finding of material misstatement of facts</u>:

(a) 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 shall discuss the matter with management.

(b) When, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.

(c) When the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify his concern to those charged with governance regarding the other information and take any further appropriate action.
