

HKSA 720  
Issued June 2005

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Effective for audits of financial statements  
for periods beginning on or after 15 December 2004

*Hong Kong Standard on Auditing 720*

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



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**HONG KONG STANDARD ON AUDITING 720**  
**OTHER INFORMATION IN DOCUMENTS CONTAINING**  
**AUDITED FINANCIAL STATEMENTS**

(Effective for audits of financial statements  
for periods beginning on or after 15 December 2004)

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Hong Kong Standard on Auditing (HKSA) 720, "Other Information in Documents Containing Audited Financial Statements" should be read in the context of the "Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services" which sets out the application and authority of HKSAs.

## Introduction

1. The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements. This HKSA applies when an annual report is involved; however, it may also apply to other documents, such as those used in securities offerings.
2. **The auditor should read the other information to identify material inconsistencies with the audited financial statements.**
3. A "material inconsistency" exists when other information contradicts 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.
4. An entity ordinarily issues on an annual basis a document which includes its audited financial statements together with the auditor's report 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 HKSA, such other financial and non-financial information is called "other information."
5. 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.
6. 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, the auditor needs to give consideration to such other information when issuing a report on the financial statements, as the credibility of the audited financial statements may be undermined by inconsistencies which may exist between the audited financial statements and other information.
7. 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.
8. 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 professional standards. When such responsibilities involve the review of other information, the auditor will need to follow the guidance on review engagements in the appropriate HKSREs.

## Access to Other Information

9. In order that an auditor can consider other information included in the annual report, timely access to such information will be required. The auditor therefore needs to make 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 follow the guidance in paragraphs 20-23.

## Consideration of Other Information

10. The objective and scope of an audit of financial statements 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

11. **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 amended.**

12. **If an amendment is necessary in the audited financial statements and the entity refuses to make the amendment, the auditor should express a qualified or adverse opinion.**
13. **If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency or taking other actions.** 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. The auditor would also consider obtaining legal advice as to further action.
- 13-1. The auditor's possible further course of action may involve using his right under section 141(7) of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns him as auditor.

### Material Misstatements of Fact

14. While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent material misstatement of fact.
15. For the purpose of this HKSA, a "material misstatement of fact" in other information exists when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.
16. **If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.** When discussing the matter with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and would need to consider whether valid differences of judgment or opinion exist.
17. **When the auditor still considers that there is an apparent misstatement of fact, the auditor should request management to consult with a qualified third party, such as the entity's legal counsel and should consider the advice received.**
18. **If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor should consider taking further appropriate action.** 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.
- 18-1. If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor's possible further courses of action may involve the following:
  - (a) including a paragraph after the audit opinion in the auditor's report describing the material misstatement of fact in the other information;
  - (b) using his right under section 141(7) of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns him as auditor;
  - (c) withdrawing from the engagement.

### Auditor's Possible Further Courses of Action

- 18-2. The auditor has regard to the nature of the inconsistency between the financial statements and the other information or the misstatement of fact in the other information that in his opinion exists. A distinction may be drawn between a matter of fact and one of judgment. It is generally more difficult for the auditor to take issue with a matter of judgment (such as management's view of the likely out-turn for the following year) than a factual error. Although the auditor does not substitute his judgment for that of management in such matters, there may be circumstances in which auditor is aware that the expressed view of management is significantly at variance with the entity's internal assessment or is so unreasonable as not to be credible to someone with the auditor's knowledge. Choice between the courses of action

to be taken by auditor will depend in part upon the auditor's perception of the seriousness of the inconsistency between the financial statements and the other information or the misstatement of fact in the other information.

- 18-3. The auditor who is considering the course of including a paragraph after the audit opinion in the auditor's report describing the material inconsistency between the financial statements and the other information or the material misstatement of fact in the other information is advised that the qualified privilege (i.e. the defence to an action for defamation) which an auditor's report normally enjoys may not extend to comments on items of the other information which appear to be misleading. Similarly, no qualified privilege may attach to statements made by the auditor on such matter at a general meeting pursuant to his right under section 141(7) of the Companies Ordinance. The auditor would also bear in mind the provisions of section 140A of the Companies Ordinance, and in particular the obligation imposed by subsection (2) thereof, before deciding whether resignation from the engagement would be likely to resolve the problem. The auditor would consider seeking legal advice both as to which course of action he would adopt and as to the precise form of any wording to be used.

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

19. When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would read the other information at the earliest possible opportunity thereafter to identify material inconsistencies.
20. 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 determine whether the audited financial statements or the other information need revision.
21. When revision of the audited financial statements is appropriate, the guidance in HKSA 560, "Subsequent Events" would be followed.
22. When revision of the other information is necessary and the entity agrees to make the revision, the auditor would 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 statements, the auditor's report thereon and the other information are informed of the revision.
23. **When revision of the other information is necessary but management refuses to make the revision, the auditor should consider taking further appropriate action.** 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.

### Effective Date

24. This HKSA is effective for audits of financial statements for periods beginning on or after 15 December 2004.

### Conformity and Compliance with International Standards on Auditing

25. As of June 2005 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 720 "Other Information in Documents Containing Audited Financial Statements". Compliance with the requirements of this HKSA ensures compliance with ISA 720.
26. Additional local guidance is provided in paragraphs 13-1, 18-1, 18-2, and 18-3.

### Public Sector Perspective

1. *This HKSA is applicable in the context of the audit of financial statements. In the public sector, the auditor may often have a statutory or contractual obligation to report specifically on other information. As paragraph 8 of this HKSA indicates, the procedures stated in this HKSA would not be adequate to satisfy legislative or other audit requirements related to, for example, the expression of an opinion on the reliability of performance indicators and other information contained in the annual report. It would be inappropriate to apply this HKSA in circumstances*

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

*where the auditor does have an obligation to express an opinion on such information. In the absence of specific auditing requirements in relation to “other information,” the broad principles contained in this HKSA are applicable.*