An Investigation of the Auditor's Role in Auditing "Other Information" in Annual Reports: Evidence from Senior Audit Professionals

A thesis

submitted in partial fulfilment

of the requirements for the Degree of

Master of Commerce

in Accounting and Information Systems

by Judy Gee

at the University of Canterbury

2016

Abstract

This research investigates the auditor's role in auditing the "other information in annual reports and attempts to address the significant gap in knowledge on auditors' role in auditing "other information". In particular, this research tries to better understand the following: 1) the auditor's role and responsibilities for the "other information" while auditing financial statements; 2) how ISA 720, both current and revised versions, affect current practice and the challenges it brings; and 3) to further understand the audit performance-expectation gap, specifically, the performance gap identified Porter (1993). Nine interviews were conducted with senior audit professionals who provided the basis for the findings. The interviews were recorded, transcribed, managed and analysed with the use of NVivo 11. The findings confirm the subjectivity within ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. This research also reveals the challenges auditors face in balancing the expectations of society and the practicalities of working at the margins of their professional judgement and knowledge. Ultimately, the findings will be applicable to practice, policy-makers, current literature and theory, by expanding the knowledge in an under researched area.

Acknowledgements

Undertaking a Master's degree has no doubt been challenging, yet rewarding in terms of the skills I have learnt and what it means to work hard and have discipline.

I would like to give my utmost appreciation to my supervisors, Assoc. Prof. Richard Fisher and Assoc. Prof. Beverley Lord. I am very grateful for their patience, guidance, time, and help when it was needed. Without your help this thesis would not have been possible.

I would like to thank the interview participants for giving up their time willingly to participate in this research despite their busy work schedules. This research would not have been possible without the valuable, detailed and insightful information obtained from the interviews.

I would like to thank my classmates and friends. Thank you for your support and encouragement during my moments of crisis. Your friendship is invaluable and made this journey more enjoyable.

Last but not least, to my family. Thank you for encouraging and supporting me in all of my pursuits. I could have never come this far and consider myself the luckiest in the world to have such a supportive family, standing behind me with their love and support.

Thank you everyone

Contents

Chapter 1 – Introduction

1.1 Overview

The role of the auditor continues to expand in scope and complexity as stakeholder demands for improved corporate accountability grow (Hooks, Coy, & Davy, 2002). In 2005, the International Accounting Standards Board (IASB) issued its discussion paper *Management Commentary* (IASB, 2005) and proposed that entities should disclose information on the nature of the business, objectives, strategies, key resources, risk and relationships, results and prospects and performance measures and indicators. Much of these aspects are in the form of narratives and some opine that the narrative section is the most important part of the annual report (Canniffe, 2003). Examples of narratives include the Chief Executive Officer's (CEO) statement, Management Discussion and Analysis (MD&A), and other written representations about the operations of the entity. Brazel, Jones, and Zimbelman (2009) observed that when unaudited non-financial measures are inconsistent with financial statement information, the likelihood of fraud is higher. Their results suggest that auditors should pay attention to the information in annual reports in other types of regulatory filings that could be inconsistent with the audited financial statements. Bedard, Sutton, Arnold, and Phillips (2012) observed that investors, professional and nonprofessional, use certain information categories more often when they believe that the information has been audited. Furthermore, the responses of both investor groups, concerning whether currently unaudited information categories should be audited, suggest an unmet demand for greater assurance concerning information outside of the financial statements.

The applicable auditing standard which tries to align users' expectations with auditors' responsibilities to non-financial information is International Auditing Standard (ISA) 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. ISA 720 refers to any information presented alongside the financial statements and notes as the "other information" (see paragraph 5(a)) and, among other things, could comprise of a report by management, financial summaries or highlights, financial ratios and planned capital expenditures (see paragraph A3). In an audit, the auditor will know the financial results reported in the financial statements at the time of evaluating the "other information" as this evaluation occurs towards the end of the audit. This puts auditors in a prime position to carefully review and substantiate the claims management make in the "other information". The auditor will need to assess whether the "other information" is consistent with the audited financial statements. If the auditor finds that the "other information" is inconsistent, then the auditor can respond according to the requirements of ISA 720. Notwithstanding this, the audit report opinion does not provide specific assurance on the "other information" and it is unclear whether general financial statement users (i.e., individuals who use financial accounting information to make rational investment, credit, and similar decisions) are aware of this, thereby, giving rise to an expectations gap (Porter, Ó hÓgartaigh, & Basherville, 2012) – a gap between society's expectations of auditors and auditors' actual performance as perceived by society (Porter, 1993).

However, little is known about how auditors consider the "other information" in current practice and to what extent auditors are attentive in reviewing such information to ensure it is consistent with firms' actual performance. Professor Schilder, Chairman of the International Auditing and Assurance Standards Board (IAASB) stated:

> *Non-financial information should not be knowingly associated with false or misleading statement[s], and it should be aligned with financial reporting*
> *[EY, 2004, p. 3].*

Clatworthy and Jones (2006) noted that while an audit firm they contacted, read the "other information" to ensure the that numbers are reconcilable with the audited financial statements, the firm has no specific guidance on how auditors' should consider narratives, thus, giving rise to subjectivity [see their footnote 2]. In addition, Deloitte (IASB, 2006) argues that the "other information" is likely to "be so subjective as to require auditors to modify their reports on the grounds of fundamental uncertainty or limitation of scope…" (IASB, 2006, p.5). Thus, whether relevant standards are effectively guiding auditors is unclear. More recently, in August, the IAASB released a discussion paper on supporting the credibility and trust in emerging forms of external reporting (IAASB, 2016). It clarifies the demand for credibility and trust with emerging external reports. It also raises the question of how can the auditing profession meet this demand. Thus, the purpose of this study is to investigate the auditor's role in auditing the "other information" in annual reports. In addition, this research makes a timely and meaningful contribution to the IAASB.

1.2 Motivation and contributions of this study

Very little is known about how auditors consider the "other information" during the audit of financial statements. There are questions surrounding the application of ISA 720 due to the level of judgement and subjectivity involved (Clatworthy & Jones, 2006). This is of concern as users have been attaching increasing value to narrative information as they look for better ways to inform their analysis and understanding of the more complex areas in the financial statements. Narrative information, if not "true and fair" may result in capital misallocations (Merkl-Davies, Brennan, & McLeay, 2007).

The rapidly changing nature of today's financial reporting environment, may mean the auditing profession and its standards are lagging in identifying and responding to changing public expectations (Tricker, 1980). For example, Fisher and Naylor (2016) investigated the auditor's role and responsibilities concerning Internet Financial Reporting (IFR) and found that due to the rapid advancement of reporting practices, auditing pronouncements are struggling to keep pace. Consequently, the emergence of an audit expectations gap is seen between users and preparers of online reports and the auditors of those reports (Fisher & Naylor, 2016). Furthermore, the emergence of Integrated Reporting will further exacerbate many of the concerns auditors are currently facing. This will draw criticisms to the auditing profession if they do not meet society's expectations.

This research will provide a more transparent picture of the current role and practice of auditors on the broad issue of their responsibilities regarding the "other information". Interview evidence from this study should, therefore, be of significance to the accountancy profession in its deliberations on how effective current standards are for the review of "other information".

The research approach to this study is qualitative in nature. A number of authors are in agreement about the value and importance of qualitative research into aspects of audit practice. Hopwood (1996) observe that much of audit practice remains as a "black box". Beattie, Brandt and Fearnley (2001) and Power (2003) agree that the study of auditing in action is lacking. This then, prompted Humphrey (2008) to strongly encourage research which seeks "to bridge a gap and enhance the understanding of the practical realities of audit practice" (p. 172); and how "such practices relate to, influence and are influenced by, broader social, organisation and regulatory contexts" (p. 185). This study aims to answer some of the concerns raised by Humphrey (2008).

The specific contributions of this paper can be grouped into three categories:

1. **Policy:** this research will aid policy makers in understanding the effectiveness of the standard overseeing auditors' responsibilities relating to the "other information". This will contribute to future development in standards and guidance regarding the "other information";
2. **Practice:** this research will provide a clearer picture of an auditors' role and practices as perceived by auditors themselves, providing a basis for individual audit firms and the audit profession to evaluate their performance; and
3. **Theory:** this research will contribute to further understanding of the implications that auditor's work on "other information" will have on the audit expectations gap (Porter, 1993). In addition, the study will provide future directions for research in this important, but neglected area.

1.3 Structure of thesis

The structure of this thesis is structured as follows: Chapter 2 reviews the literature on the "other information", ISA 720, the audit expectation gap and identifies the knowledge gaps. This also forms the basis for the research questions. Chapter 3 explains the research methodology and methods used in collecting and analysing the research evidence. Chapter 4 analyses and interprets the findings to answer the research questions. Chapter 5 analyses and discusses the findings. The thesis then concludes with chapter 6, which discusses the contributions of the research evidence to current literature, theory, practice and policy; a summary of the findings; and recommendations for future research.

Chapter 2 – Literature review

The previous chapter provided an overview to the current study and outlined its motivation and contributions. The aim of this chapter is to summarise relevant literature to identify gaps in our knowledge, thus forming the basis for the development of the research questions underpinning this research. This chapter reviews three aspects of literature: 1) narratives; 2) ISA 720; and 3) the audit expectation gap. A review of narratives and ISA 720 will identify the knowledge gaps surrounding the auditor's roles and responsibilities with respect to the "other information". A review of the audit expectations gap will assist in providing analytical framework with which the results can be interpreted. To conclude, the research questions will be outlined.

2.1 Narratives

Narratives in annual reports are "generally considered to be one of the most important sources of corporate information" (Botosan, 1997, p. 331). Clatworthy and Jones (2003) and Beattie, McInnes, and Fearnley (2004) highlight the importance of accounting narratives. Percy (1999) observes that although financial statements once fulfilled all the information needs of stockholders and stakeholders, there is now a push towards including more narrative information. This is emphasised by regulatory authorities, both in the USA and UK, such as the Securities Exchange Commission (SEC), who mandated the management discussion and analysis (MD&A) in 1980 (SEC, 2002). Its purpose is to provide a narrative explanation "through the eyes of management" of how the entity has performed in the past, its current financial position, and its future prospects. In the UK, the Accounting Standards Board (ASB) produced the Operating Financial Review (OFR) in 1993. The OFR is to provide an "objective discussion that analyses and explains the main features underlying the results and financial position", due to the growing complexities of businesses. Beattie and Jones (1992) found that 149 out of 189 (79 percent) used graphs to display some sort of information in their annual reports. Notably, the chairman's statement is the most widely read and useful aspect in the annual report (Lee & Tweedie, 1976; Harte, Lewis, & Owen, 1991; Clatworthy & Jones, 2006).

Prior research on narratives demonstrates that they are useful for predicting future financial performance (Beynon & Jones, 2004; Bryan, 1997) and bankruptcy (Tennyson et al., 1990; Smith & Taffler, 1995, 2000). Therefore, it is important that the narrative information conveyed to users reflects financial reality. Commentators have raised doubts about the harmony of the two parts. The financial statements are audited and as such, are submitted to a form of control (generally accepted accounting principles); whereas the narratives offer a “blank canvas” for management and are not regulated. This asymmetry of information between management and users (as described by Jensen and Mackling, 1976; Ingram & Frazier, 1983) opens the possibility for manipulation or obfuscation of information (Deegan & Gordon, 1996; Jones, 2011) and impression management. Impression management is described as an attempt to present a more positive take on the company’s performance and position than is merited (Beattie & Jones, 2008). This may potentially result in conflicting messages being given in the narratives relative to what is expressed in the audited financial statements (Abrahamson & Amir, 1996; Smith & Taffler, 1995). This will impair the quality of financial reporting and possibly result in capital misallocations (Merkl-Davies et al., 2007).

In brief, narratives have emerged as an important and integral part of corporate reporting and will still assume a greater degree of significance into the future. Henderson (2004) claimed that narratives in annual reports are more important than the financial statements, and that investors were more likely to read the narratives over the financial statements. Authors have observed an increase in reliance on narratives by users, hence the increased pressure to ensure transparency for the sake of unsophisticated users (Rutherford, 2003, Beattie and Jones, 2002). Therefore, it is critical to examine the narrative sections of the annual report as they contain important information which shareholders and stakeholders use to make decisions. In fact, very often this information is relied on in preference to data in the financial sections of the report (Henderson, 2004; Canniffe, 2003; Bartlett and Chandler, 1997). The next section will discuss in detail three prominent sections in an annual report that may potentially be part of “other information: 1) the chairman’s statement; 2) MD&A; and 3) visuals. It will also discuss two emerging developments surrounding the annual report: web documents and integrated reporting. The next section reviews the chairman’s statement.

2.1.1 Chairman’s statement

The chairman’s statement (or its equivalent the president’s letter) is an almost universally read component of an annual report (Clatworthy & Jones, 2006; Smith & Taffler, 1992) and is a source of “useful information about the future of the company” (Abrahamson & Amir 1996, p. 1179). Bartlett and Chandler (1997) and Beattie and Pratt (2002) found that, out of 17 sections in an annual report, the chairman’s statement is most thoroughly read with 48% readership, and was ranked second in overall importance by private shareholders.

Empirical research conducted in the United States has shown that the both inclusion and the content of the president's letters significantly affect the judgements on share prices in equity investment decisions (Shanton et al., 2004). Furthermore, Smith and Taffler (2000) find the chairman's statement is highly associated with the indication of firm failure.

While it can, in principle, be used to convey important strategic information to readers, studies that have content analysed chairmen's statements have found that they can be used for conveying biased content or messages that are ambiguous in terms of the future prospects of the business. Aerts (1994) identifies the chairman's statement as providing an opportunity for companies to make "systematically biased" (p. 341) statements and manage news disclosures in the company's favour. In a later study, Aerts (2005) refers to this as a "self-serving attributional bias" — a form of impression-management companies use to manipulate audiences with respect to a particular interpretation of events. Clatworthy and Jones (2006) looked into poorly performing companies who engaged in impression management and found that companies doing poorly tend to concentrate on the future rather than reporting on the past, which confirms that the chairman's statement is subject to impression management.

The usefulness of the chairman's statement perceived by report users reinforces the importance disclosures have in the association with the future of the company (Smith & Taffler, 2000). Currently, the chairman's statement is not audited but is subject to scrutiny from auditors (Bettman and Weitz, 1983) to be accurate and honest. Additionally, the scope and nature of the chairman's statement constrains it to discuss the firm's achievements and disappointments, results for the current period, future expectations and predictions (Staw et al., 1983). As a result of the chairman's perceived usefulness and the reliance held by users, there are calls for this "other information" to be audited (Clatworthy & Jones, 2006). The next section reviews the MD&A. At the moment, they are only subject to a review by the auditor and do not provide an opinion on the "other information" in the auditor's report.

2.1.2 MD&A

The purpose of the MD&A is to provide a narrative explanation "through the eyes of management" (SEC, 2003), information necessary in understanding the entity's past performance, its current financial condition, and its future prospects (SEC, 2003). In the process, the MD&A provides users incremental information, beyond the financial statements, in assessing the firms future prospects (Bryan, 1997), and provides the transparency of financial information (Rogers & Grant, 1997; Tavcar, 1998). To stress its importance, in the US, the Securities and Exchange Commission (SEC) mandated the MD&A in 1980 (SEC, 2003). In the UK, the Accounting Standards Board, proposed the Operating Financial Review (OFR) which should complement as well as supplement the financial statements to enhance the overall corporate disclosure. The statutory OFR was unexpectedly replaced in November 2005 by a lesser requirement for an "Enhanced Business Review" (EBR). Consequently, the EBR is mean to be 'less prescriptive' and 'more flexible' relative to the OFR and requires the review to extend into information on environmental, employment, social and community issues and forward-looking information (ICAEW, 2016).

Epstein and Palepu (1999) observed that financial analysts and users are more dependent on the MD&A content when making forecasts than they are on the financial statements and that it provides incremental information to the markets beyond earnings (Bryan 1997; Clarkson, Kao, & Richardson, 1999; Francis, Jones & Cole, 2005). Epstein and Pava (1995) observed that MD&A are read and used more by inexperienced users. Furthermore, Sutton, Arnold, Bedard, & Phillips (2010) and Arnold, Bedard, Phillips, & Sutton (2011) found that nonprofessional investors who are more inclined to favour using the MD&A over footnote information, are more likely to use MD&A information if they think it has been audited. Furthermore, nonprofessional investors appear to read financial information in the order in which it is presented (Bouwman, 1982, Maines & McDaniel, 2000). With the MD&A being presented before the financial statements in an annual report, nonprofessional investors will probably interpret information about the entity from the outset. Thus, suggesting that users place a greater importance on the information that is presented before the financial statements

Bedard et al., (2012) revealed that investors are generally unable to differentiate the levels of assurance associated with financial statements versus MD&A disclosures. Adding to the misunderstanding, Libby, Nelson, and Hunton (2006) find that auditors tend to allow greater magnitudes of misstatements in different parts of the annual report. Specifically, Libby et al., (2006) observed that auditors tolerated greater misstatements in disclosed information (i.e., footnotes) as opposed to recognised information (i.e., financial statements). This is of concern, as the "other information" may not be consistent with the audited financial statements and result in a "mismatch" of information, thereby hindering reporting quality.

Like the chairman's statement, they are currently not audited. Although, there have been calls for greater auditor involvement with MD&A disclosures (Wheeler, Cereola, & Louwers, 2014; Bedard et al., 2012) due to the importance, reliance and the ability the MD&A has in the understanding of the entity's position. Bedard et al., (2012) suggests there is an unmet demand for the audit of MD&A.

2.1.3 Visuals

The presentation of financial information may be achieved using more than just figures and statements. Graphs are popularly used in annual reports as they help facilitate the users' understanding and perception of the entity and its financial health (Jones, 2011; Holmes, 1984) and used to highlight or summarise important trends (Steinbart, 1989). They are particularly more "user friendly" than tables, have the ability to attract the reader's attention and are more likely to be remembered (Beattie and Jones, 1997; Pavio, 1974). International research has shown that the use of graphs in annual reports is widespread, with in excess of 80% of companies found to be using graphs to present some form of information (Beattie & Jones, 1992, 2000, 2002).

However, Jones (2011) and Beattie and Jones (1997) identified a number of ways graphs could mislead users: 1) selectivity; 2) measurement distortion; and 3) presentational enhancement (see Jones, 2011). Selectivity involves management deliberately choosing certain factors that will result in a favourable impression of the company; for example, selecting certain time periods where there is a positive correlation. Measurement distortion occurs when the graph's physical dimensions do not accurately reflect the underlying numerical data; for example, where the y-axis does not start at zero. This may result in an exaggeration of performance or a declining trend being understated. Presentational enhancement is where a particular aspect of the graph is given prominence; for example, prominence is given to emphasise a certain figure. The current literature on the use of graphs has documented impression management as the incentive to enhance the company's image (see Beattie & Jones, 2008).

Graphs can be used either to aid understanding or potentially to mislead the viewer and Arunachalam, Pei, & Steinbart (2002) confirmed that the decision-making process could be influenced by manipulated graphs when integrated with numerical information. They are accurate to the extent to which they lead the viewer to form conclusions consistent with those that would result from a quantitative analysis of the data (Steinbart, 1989). Therefore, it is important to ensure that the graphs depicted in an annual report accurately reflect the information in the audited financial statements. It is currently not known whether or how auditors consider graphs in their assessment of the "other information". Steinbart (1989) concluded that additional guidance is needed to assist auditors in determining when "other information" is presented in a manner that is materially inconsistent with the financial statements. Beattie and Jones (1997) recognised the need for accounting and auditing guidelines addressing the preparation and presentation of graphs.

2.2 Web documents

The internet has emerged as a more direct and faster way to reach stakeholders than traditional hard-copy disclosures (Fisher, Oyelere, & Laswad, 2004) and numerous companies around the world have been engaging in the use of Internet financial reporting (IFR). The benefits associated with IFR have been well documented and include: 1) improved cost efficiency; and 2) improved user access to information (see Fisher et al., 2004). IFR is still voluntary in most countries with the lack of regulation and rules to govern such disclosure practices. Consequently, problems with IFR arise and include: 1) information overload; 2) information quality; and 3) security (Jones & Xiao, 2004). On information overload, Groves (1994) reviews 25 large US company reports and is concerned that the sheer quantity of financial disclosure diminishes its value. This is not surprising because of its virtually unlimited capacity (Trites, 1999). Problems with information quality are two-fold: data integrity and auditability. Integrity refers to out-of-date information (Hussey Gulliford, & Lymer, 1998); misleading through hyperlinking (Trites, 1999), or selectivity (Gowthorpe & Flynn, 1997). Auditability refers to the ambiguity of whether certain financial information has been subject to an audit (Hussey et al., 1998). Last, the likelihood of security breaches such as unwarranted third party interventions (Hussey et al., 1998).

Hodge (2001) notes a potential issue for IAS 720 when looking at audited financial statements that are hyperlinked to unaudited information on the internet. He showed that the participants misclassified hyperlinked unaudited information as audited. The participants also rated the credibility of accompanying hyperlinked unaudited information as higher than subjects viewing hard copies of the unaudited information. This confusion about the responsibility of the auditor with respect to web-based accounting reports has existed since the inception of Internet financial reporting (Archambault & Gibson, 1999).

The extent of an auditor's effort in performing the audit examination varies on the basis of current practices, auditing standards, and the auditing environment. ISA 720 does not consider web documents as part of "other information" which implies that auditors are not required to read such information (see ISA 720, paragraph A4). The disclosures made may then be easily misused and create a demand for auditing services with respect to web documents (Wagenhofer, 2003). Fisher and Naylor (2016) and Bedard et al., (2012) also provide strong evidence of an unmet demand for auditing corporate website information.

2.3 Integrated reporting

Integrated reporting (IR) marked a potential landmark development in the evolution of corporate reporting. It is a new reporting paradigm which encourages companies to bring together financial, environmental, social and governance information to enable interested stakeholders to provide a holistic account of companies' performances. It was developed in response to growing stakeholder demand for a broader range of decision-useful information (Busco, Frigo, Riccaboni & Quattrone, 2013). More importantly, IR aims to offer a long-term view and the sustainability of an organisation's operations; a shortfall in the current reporting paradigm. Contributing to the momentum, South Africa mandated IR for listed companies on the Johannesburg Stock Exchange.

Hanks and Gardiner (2013) recognised the interrelationship between financial stability and environmental and social sustainability. As a result, this presents the need for greater integration between financial and non-financial information, present and future-oriented data, in a concise, clearly expressed, consistent and comparable report (Eccles and Krzus, 2010). However, in producing IR, Wild and van Staden (2013) find them lengthy, with a majority (69 percent) between 100 and 250 pages long. However, critical information may be overlooked due to the length of an IR and the growth in the quantity of non-financial information does not correlate with a high standard of quality in the information (Wild & van Staden, 2013). This is not surprising given the voluntary nature of the "other information". With the expansion in the amount of disclosures to be reported, it raises serious concerns for auditors as to the scope of information that is considered as the "other information" and thereby, reviewed.

In brief, the amount of disclosures is going to increase and the distinction between what is to be audited and what is not will be blurred. This new paradigm of corporate reporting will amplify existing issues concerning auditors' roles and responsibilities with respect to the “other information”. Auditors may then have different views and interpretations about which of the companies’ reported information constitutes the ISA 720 “other information” in the specific client circumstances. This could this lead to inconsistency in practice and a widening of the expectation gap about the nature and extent of the auditor’s work.

To summarise, annual reports include more information, both financial and non-financial, present management with the opportunity to explore ways to better integrate financial statement information and the “other information” to reflect their financial performance and position. Users have been attaching greater importance to the “other information” in an entity’s annual report that is not scrutinised as closely as the financial statements by independent auditors (Ingram & Frazier, 1983). As such, management has freedom in determining the contents of their narratives and with the lack of objectivity this raises concerns about the validity of the “other information”. As a result, there is significant demand for at least some degree of assurance on the “other information”. The next section will review (current and revised) ISA 720 which outlines the requirements of auditors pertaining to the “other information”.

2.4 ISA 720

ISA 720 was promulgated in 2000 by the IAASB, following the American experience in issuing Statement on Auditing Standards (SAS) No. 8 by the American Institute of Certified Public Accountants (AICPA) in 1975. SAS No. 8 was then codified into SAS No. 118 and subsequently AU Section 550 as a result from the Clarification and Convergence Project of the Auditing Standards Board in 2010 to address practice issues (AICPA, 2015). In addition, the Accounting Standards Board (ASB) in the United States of America also converged the standards with the ISAs issued by the IAASB. Thus, AU Section 550 was redesigned as AU-C Section 720 *Other Information in Document Containing Audited Financial Statements* (AICPA, 2015). With regard to New Zealand’s auditing standards, prior to adopting the ISAs in 2005, the standard overseeing auditors’ responsibilities concerning the “other information” was AS-518 *Other Information in a Document Containing an Audited Financial Report* (NZICA, 2010). In implementing the ISAs in New Zealand, additions, deletions, or other amendments to the extent permitted by the IAASB was required. However, in adopting ISA 720 which became ISA (NZ), there was no change in scope or concepts (NZICA, 2010). Thus, the reporting of this study has implications for the audit profession globally.

In undergoing numerous revisions of the standard (SAS No. 8, SAS No. 118, AU Section 550, and AU-C Section 720) suggests that the AICPA acknowledged the changing environment of corporate reporting and revised the standard to meet society's expectations. The IAASB also acknowledged the rapid changing landscape of corporate reporting. Hence, the stated purpose of ISA 720 was to "serve the public interest" by ensuring that there is an appropriate auditor response in the event the other information could undermine the credibility of the audited financial statements and the auditor's report (IAASB, 2015). The IAASB chairman, Professor Schilder remarked:

> *The annual report is a critical document for investors. It is in the public interest that an auditor undertakes an 'intelligent read' of an annual report, in the context of the knowledge obtained in the audit, and perform certain procedures to ensure the annual report is not materially inconsistent with the audited financial statements*
>
> *[IFAC, 2015, p. 1].*

Developments in narrative reporting have shown a clear demand for assurance and are seen as value-adding. The IASB (2005) Management Commentary suggests the need to investigate the assurance on the "other information" because of users' evolving assurance needs as discussed in the above sections. However, the attitude of the UK auditing profession to provide assurance on the "other information" has been extremely cautious as they argued that the role of auditors should be limited to a consistency check as:

> *[T]he type of work required to make any judgement on the adequacy of the OFR is of quite a different type to that normally carried out retrospectively in an audit… it is also aiming at a much wider set of inputs to the process… some of which may lie outside the auditors' competence to comment upon…*
>
> *[ICAS, 2004].*

In agreement, the IAASB also reflects a cautious take and the recently revised ISA 720 (IAASB, 2009) continues to mandate a consistency approach by requiring auditors to read the "other information" in order to identify material inconsistencies with the audited financial statements. If the current ISA 720 is taken literally, the auditor's responsibility extends only to what is said in the "other information" and not to what is not said. This raises questions of whether auditors address the completeness of "other information" when applying the provisions of the ISA 720. The standard itself is not very specific and had been questioned over its efficacy (Clatworthy and Jones, 2006; Fisher and Naylor, 2016; Bedard et al., 2012).

In 2012, the IAASB issued an exposure draft on the revision of ISA 720 as part of their *Strategy and Work Program 2009–2011* to better reflect today's financial reporting environment. The initial draft raised several concerns which prompted the IAASB to issue a second exposure draft that clarified and refined the scope and what the auditor should do when assessing "other information". The standard was finalised in April 2015 and is effective for audits of financial statement periods ending on or after 15 December 2016. The objective of the IAASB's revision of ISA 720 was to ensure that the ISA continues to be capable of enhancing the credibility of financial statements (IAASB, 2015) and overwhelming evidence of support in strengthening the auditor's responsibilities with respect to "other information" is observed (Simnett & Huggins, 2014). In addition, Dan Montgomery, deputy chair of the IAASB stated that:

> *There is pressure from regulators and others for auditors to do more to challenge the other information, including doing more regarding its consistency with the financial statements and the auditor's knowledge.*
>
> *[EY, 2014, p. 3].*

These calls have suggested that the profession should review its societal obligations and provide assurance that goes beyond purely accounting information. Unwillingness to engage with society's demand may draw criticism to the profession. Furthermore, standard-setters and the process have faced criticisms in the literature. Sikka (2001) viewed standard-setters as prejudiced bodies acting in the interest of the few groups embedded in their membership of the profession (for example, large professional accounting firms and large multi-national companies). The process is seen as being designed to promote the self-interest of a few powerful interest groups to the detriment of other interest groups (Sikka, 1992). For example, a basis for conclusions prepared by the staff of the IAASB in April 2015, acknowledged the general view of arguments arising from the comment letters, however, it is seen that some arguments were dismissed and not taken into consideration. This is consistent with what Young (2003, 2006) observed. Certain issues have been kept off the agenda and real power is exercised in standard-setting when potential issues are kept out of consideration, rather than when a party enters the public consultation process (Sikka, 2001). On the other hand, Manson and Zaman (1999) felt that auditing firms did have a positive attitude towards their greater responsibility for the audit function.

2.4.1 Comparison of ISA 720 and ISA 720 (revised)

To facilitate the understanding of the changes made in the revision of ISA 720 (refer to Appendix 1), a brief summary of the significant changes covering the objectives, definitions, and requirements made will be discussed below. References to ISA 720 will mean the current standard unless stated otherwise.

2.4.1.1 Scope

The current ISA 720 requires auditor's responsibilities to extend to the "other information" in documents containing audited financial statements (see paragraph 1) which refers to annual reports (see paragraph 2). The scope within ISA 720 (revised) has extended to recognise that an entity's annual report may be a single document or a combination of documents (see paragraph 1). In addition, ISA 720 (revised) clarifies the duties of an auditor concerning the "other information. For example, they explicitly state that the auditor is required to read and consider the other information because it may be materially inconsistent with the financial statements (see paragraph 3) and that the auditor's responsibilities under ISA 720 does not constitute an assurance engagement (see paragraph 8).

2.4.1.2 Objective

A notable change made in the revision of ISA 720 was the change in its objective. ISA 720 requires the auditor to respond accordingly with the ISA 720 in the event of the "other information" undermining the credibility of the financial statements and the auditor's report (see paragraph 4). In addition, ISA 720 (revised) makes further references and requires the auditor to consider whether a material inconsistency exists between the "other information" and the auditor's knowledge obtained in the audit (see paragraph 11(b)). An auditor's knowledge is highly subjective which leads to different interpretations of what is required or expected in the standard which leads to inconsistent practices.

2.4.1.3 Definitions

Two significant changes were made in the definitions within ISA 720. First, ISA 720 identifies and defines "misstatement of fact" as the "other information" being incorrectly misstated or presented, which may undermine the credibility of the financial statements (see paragraph 5(c)). This definition of "misstatement of fact" establishes a clear link between the "other information" and the audited financial statements. ISA 720 (revised) eliminates this definition and may blur this primary connection between the "other information" and audited financial statements.

Second, ISA 720 (revised) identifies and defines "annual report" while the current ISA 720 does not. To the IAASB profession's credit, the changing landscape of corporate reporting is acknowledged. This in light of the fact that reporting practices are diverse depending on the jurisdictions they report from. A read of the definition raises questions as to what constitutes an "annual report". For example, with the emergence of IR, some companies title their reports "integrated reports", while other refer to "integrated annual reports" or just simply an "annual report"; and some companies include the full set of financial statements in their annual report and some may present summaries or highlights of those statements on their website or in other documents outside the annual report. For this reason, an "annual report" is defined as a document, or combination of documents prepared by management, whether pursuant to law or regulation, to provide shareholders' and stakeholders' information regarding the entity's financial results and position as set out in the financial statements (see paragraph 12(a)). Consequently, this definition broadens and clarifies the scope of work required by auditors.

2.4.1.4 Requirements

2.4.1.3.1 Work effort

The requirements in ISA 720 (revised) have greatly increased. ISA 720 requires the auditor to:

1. obtain in a timely manner, prior to the date of the auditor's report, the final version of the "other information" (that is, the document(s) comprising the annual report) (see paragraph 13(b));
2. read the "other information" and consider whether a material inconsistency exists between the "other information" and the audited financial statements, and the auditor's knowledge obtained in the audit. As the basis for this consideration, the auditor is required to compare selected amounts or other items in the "other information" with such amounts or other items in the financial statements (see paragraph A27); and
3. remain alert for indications that the "other information" not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated (see paragraph 15).

In comparison with ISA 720, work effort has increased as the current standard only requires auditors to read the "other information" to identify material inconsistencies, if any, with the audited financial statements (see paragraph 6).

2.4.1.3.2 Reporting

ISA 720 (revised) includes new reporting requirement related to auditor reporting on the "other information" which complements the changes arising from the IAASB's newly revised auditor reporting standards which come into effect for audits of financial statements for periods ending on or after December 2016. It requires the auditor's report to include:

- a statement that management is responsible for the "other information" (see paragraph 22(a));
- an identification of the "other information" obtained prior to the date of the auditor's report (see paragraph 22(b));
- a statement saying 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 (see paragraph 22(c)); and
- a description of the auditor's responsibilities relating to reading, considering and reporting on the "other information" (see paragraph 22(d)).

This enhanced auditor reporting provides transparency by requiring reporting on the auditor's work relating to the "other information". More importantly, the IAASB has retained the concept that the ISA 720 (revised) does not constitute an assurance engagement on the "other information" (see paragraph 8). As mentioned earlier, stating the auditor does not express an audit opinion concerning the "other information" is a cautious approach taken by the IAASB. Furthermore, the IAASB said it was helpful in addressing the risk that an expectations gap might arise (IAASB, 2012).

2.4.1.3.3 Documentation

ISA 720 (revised) introduces a documentation requirement which the auditor must include in the audit file. These include:

- procedures performed under this ISA (see paragraph 25(a); and
- the final version of the "other information" on which the auditor has performed the work required by ISA 720 (see paragraph 22(b).

The ISA 720 (revised) documentation requirement explicitly links this standard to ISA 230 *Audit Documentation* which requires the documentation of significant professional judgements made in reaching conclusions on significant matters (see ISA 230, paragraph

8(c)). This was agreed upon with the respondents in the exposure draft to respond to the views of regulators of being able to be appropriately inspected or enforced (IAASBb, 2015).

In brief, the IAASB revised ISA 720 to ensure that the ISA continues to be capable of enhancing the credibility of the financial statements through specifying appropriate responsibilities of the auditor with respect to the “other information”. A search of current literature on the topic about how auditors audit the “other information” is scant. Thus, presents a significant knowledge gap which this research is aiming to fill.

The IAASB was conscious of the audit expectation gap arising from auditor’s roles and responsibilities concerning the “other information” and stated it was a goal to narrow it. The next section discusses the implications of (current and revised) ISA 720 on the audit expectation gap.

2.5 Audit expectation gap

Porter (1993) defined the audit expectation gap as a gap between society’s expectations of auditors and auditors’ actual performance as perceived by society. Monroe and Woodcliff (1995) defines the gap as the difference in perception between auditors and the public about the duties and responsibilities of auditors and the messages expressed by audit reports. It is the difference between what the public expects from the auditing profession and what the profession actually provides (Jennings, Kneer, & Reckers, 1993) (refer to Figure 1 below).

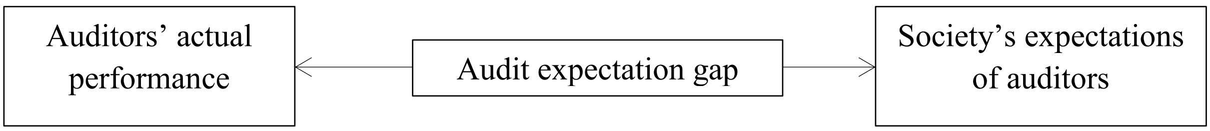

Figure 1: Audit expectation gap

Like Fisher and Naylor (2016), this study utilises Porter’s (1993) audit expectation-performance gap to provide an analytical framework which adds to its usefulness. Utilising this framework allows the identification of specific responsibilities contributing to the “performance gap” in particular, the deficient performance and deficient standards components to be addressed. These terms are defined in the next subsection.

Many explanations have been provided as to the causes of the existence of the expectation gap. Tricker (1980) notes that an expectation gap may potentially arise as a result of time lags between the accounting profession, identifying and responding to continually changing and expanding public expectations. For example, Ernst and Young (2014) found that fund managers used nonfinancial performance measures to aide in their decision-making and in this regard, the public requested the expansion of assurance to cover not just the financial measures, but also the entire scorecard of an organisation.

According to Gaa (1991), the expectation gap is a direct fallout from the political game between two contending parties: the public and the auditors. This is supported by Sikka, Puxty, Willott and Cooper (1998) who argued that it is within historical and political contexts that expectations are formed and transformed. They assert that audit, as a social practice, is subject to a constant shifting in meaning because the social context of auditing changes continuously as a result of interaction and negotiation. They conclude that the audit expectation gap will continue to exist and change over time. Another reason for the gap identified by Porter and Gowthorpe (2004) is the unreasonable expectations and a misunderstanding of the role of the auditors by users of audited statements. The next section will identify the components of the audit expectation gap.

2.5.1 Components of the audit expectation-performance gap

Initially, it was argued that the gap was because of the unreasonableness of society's expectations (Fadzly & Ahmad, 2004). Porter and Gowthrope (2004) argued that the gap consisted of two major components: 1) the reasonableness gap; and 2) the performance gap. The reasonableness gap is defined as a result of the difference in what society expects the auditors to achieve and what auditors can be reasonably expected to achieve. The performance gap is the difference between what society expects auditors to accomplish and what they are perceived to have accomplished (Porter & Gowthrope, 2004) (see Figure 2). The next two sections will explain the reasonableness gap and the performance gap in detail.

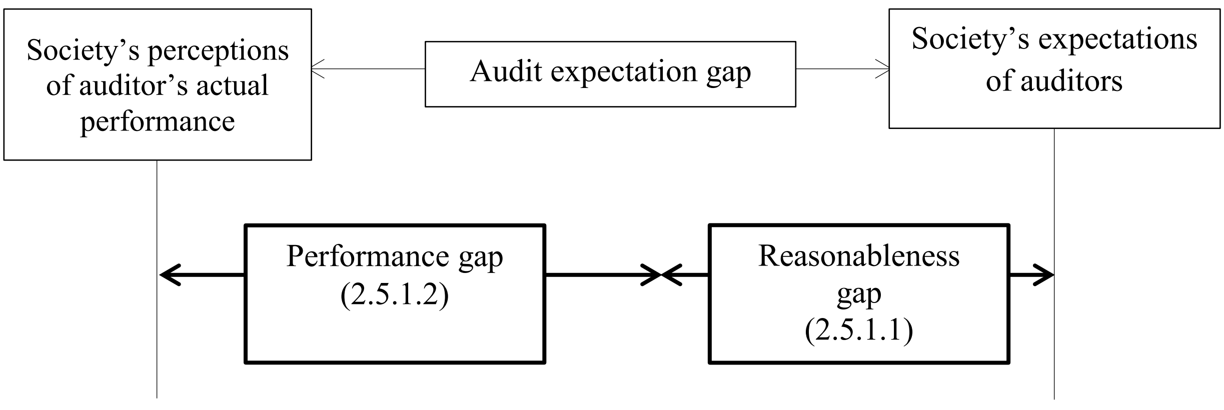

Figure 2: Components of the audit expectation gap (adapted from Porter, 1993, p. 50)

2.5.1.1 Reasonableness gap

It can be seen in Figure 2 that a major cause of the reasonableness gap is the unreasonable expectations from users. Salehi (2011) gives the probable causes of the reasonableness gap as: misunderstandings and misinterpretation by users, users' over-expectations of auditors' performance, and inadequate knowledge by users of auditors' responsibilities, for example, fraud. During the nineteenth century, fraud detection was seen as an audit objective (Higson, 2003). The judgement in Nichol's Case (1859) stated that it was part of an auditor's duty to discover fraudulent misrepresentations. Consequently, the detection of fraud was one of the auditor's top priorities (Lee, 1986). As a result, auditors were engaged to provide almost "absolute" assurance against fraud (Epstein & Geiger, 1994). The judgement in Kingston Cotton Mill Case (1896) saw the decline in the importance of fraud as an audit objective and the auditor did not have to assume going into the audit that something was wrong, however, if something was discovered, the auditor should investigate it to ensure the error was not material. This case gave rise to the famous saying 'an auditor is a watchdog but not a bloodhound'. The judgement in Irish Woollen Co. Ltd v Tyson and Others (1990), held that an auditor is liable for any damages sustained by a company by reason of falsification which might have been discovered by the exercise of reasonable care and skill in performing an audit. Therefore, instead of having to detect all frauds, it was becoming apparent that it was the auditors' duty to exercise reasonable care and skill in the conduct of their work. Despite this gradual change, the public's expectation with regard to auditors' detection of fraud remains unchanged (Hassink, Bollen, Meuwissen, & de Vries, 2009). Thereby, misunderstandings in an auditor's role attributes to the reasonableness gap. Porter (1993) found that 60 percent of society was aware of what an auditor's responsibilities are. This result is confirmed in a later study which found 50 percent of society being unsure to what an auditors' responsibilities are (Porter & Gowthrope, 2001).

With regard to ISA 720, Bedard et al., (2012) finds investor groups, professional and nonprofessional, demand greater assurance concerning the "other information". The groups perceived that certain narratives were audited when they were not. This suggests the existence of the "reasonableness gap" between what society expects auditors to achieve and what they can reasonably be expected to accomplish and is dependent on a cost-benefit analysis (Porter, 1993). This expectation may be explained due to the ambiguity within the ISA 720 and society is not completely aware of the nature of the attest function of the auditor (McEnroe & Martens, 2001).

2.5.1.2 Performance gap

The performance gap is defined as the difference between what is reasonably expected by society, and what is perceived to be achieved (Porter, 1993). Due to the limited scope of this study, there is a focus here on the performance gap (see section 2.3.1.2) as we do not directly consider the views of regulators or users. Thus, not all aspects of the expectation gap can be assessed. This gap is emphasised by Porter (1993) who further narrows it into two components: 1) deficient standard gap; and 2) deficient performance gap (see Figure 3).

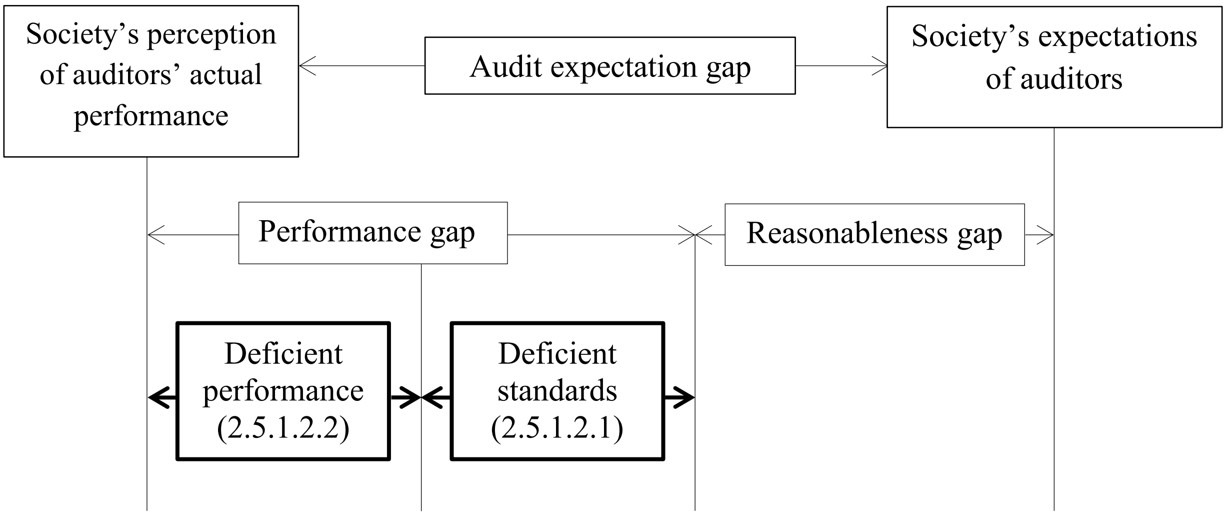

Figure 3: Components of the performance gap (adapted from Porter, 1993)

2.5.1.2.1 Deficient standards

The deficient standard gap is the difference between what auditors are reasonably expected to do by society and what the laws, standards and regulations prescribe them to do (Porter, 1993). It is the gap between the responsibilities expected and the responsibilities defined by statute. Although some of these responsibilities expected are unreasonable, a few are reasonable and therefore highlight the defect in the standard (Porter & Gowthorpe, 2004).

Porter, Ó Hogartaigh, & Baskerville (2012) provide evidence in the perceived deficient standards within ISA 720 and find auditors examining the reliability of the "other information" in the company's entire annual report reasonable. Furthermore, they stated that further guidance is necessary to the extent in which they should review the "other information".

2.5.1.2.2 Deficient performance

The failure of auditors to perform up to the reasonable responsibilities expected by society is referred to as the deficient performance gap (Porter, 1993). Akinbuli (2010) called this the “rotten auditing gap” to describe the perceived underperformance of the auditors by the users, a performance inconsistent with professional standards.

From the analysis of ISA 720, coupled with empirical evidence (Fisher & Naylor, 2016; Clatworthy & Jones, 2006), a great deal of judgement and subjectivity is involved in determining what constitutes a material inconsistency. This gives rise to inconsistent practices as the standard will be interpreted by in various ways and the level of precision to be applied in the review of the “other information” will differ amongst practitioners. This may result in deficient performance as auditors are not performing what the ISA 720 is required.

As discussed in Fisher and Naylor (2016) and Porter et al., (2012), many recurring issues initially appear in the expectation gap as part of the “reasonableness gap” and gradually, the cost-benefit equation becomes apparent. This causes an issue to shift into the deficient standards component and may be seen as the auditing profession attempting to enhance their legitimacy with the intention of fostering the belief that their actions are congruent with the expectations, values, and norms of constituents (Richardson & Dowling, 1986). This is because auditors’ legitimacy with clients is crucial (Power, 2003) and the profession is then more likely to agree with society’s expectations and demand. The initial issue appearing in the expectation gap will perhaps end up becoming the actual responsibilities of auditors through pronouncements. ISA 720 is evident of this movement.

From the above analysis, there is substantial evidence that implicates that standard-setters have contributed to the expectation-performance gap and not only users.

2.6 Summary

To summarise, the objective of this chapter was to demonstrate the linkages between current literature on the “other information” and the auditor’s roles and responsibilities for them and the knowledge gap that informed the development of key research questions.

The chairman’s statement, while it can provide important strategic information to readers, is also considered a medium for impression management (Merkl-Davis & Brennan, 2007). Consequently, there is the possibility for conflicting messages between the chairman’s statement and financial statements to be conveyed. This is of concern, as it is not known how auditors assess the chairman's statement during the audit of the financial statements and calls for the chairman's statement to be audited (Clatworthy & Jones, 2006).

Visuals, such as graphs, have the ability to influence a user's decision-making process (Arunachalam, 2002) and are supposedly reflective of the financial statements. However, as Jones (2011) and Beattie and Jones (1997) have noted, there are a number of ways they could be manipulated and display inconsistent results with the financial statements. There are currently no guidelines in the preparation of graphs and authors have recognised the need for auditing guidelines to address the accuracy and presentation of these (Beattie & Jones, 1997).

Resulting from the emergence of IFR, there are a number of benefits such as the improved cost efficiencies and user access; and difficulties such as the integrity and auditability of the data. Currently, there is confusion amongst users as to what information is audited on the entity's website and what is not. Due to the reliance upheld by users on web documents, evidence suggests there is an unmet demand for the audit of web documents (Fisher & Naylor, 2016; Bedard et al., 2012) and it is currently not known how, or if, auditors review web documents.

Regarding IR, where its purpose is to integrate nonfinancial and financial information into a concise document, the question is: what is audited and what isn't? This new form of reporting will only exacerbate many of the problems currently being faced. It will blur the distinction of the "other information" and the financial statements.

The revision of ISA 720 was to better reflect the changing reporting environment (IAASBb, 2015). Currently, auditors are required to read the "other information" in order to identify material inconsistencies, if any, with the audited financial statements. In its revision, it broadens and expands the scope of work auditors are required to do regarding the "other information". A notable change was in the objective where auditors have to be wary of whether a material inconsistency exists between the "other information" and the auditor's knowledge obtained in the audit. A search of current literature into how auditors review "other information" revealed that such literature is non-existent thus, presenting a significant knowledge gap.

The audit expectation–performance gap is utilised as a framework to allow the identification of specific responsibilities contributing to the "performance gap" in particular, the deficient performance and deficient standards components. From the review of the literature, Bedard et al., (2012) shows there is a reasonableness gap with respect to the "other information" where investors perceived that the "other information" was audited when, in fact, it was not. Porter et al., (2012) links ISA 720 to the deficient standards component of the performance gap and suggests that it is reasonable for auditors to provide the reliability of the entire audit report. A review of (current and revised) ISA 720 shows there is a deficient performance due to the level of judgement required by auditors and the subjectivity with the standard which is open to different interpretations. Consequently, this results in inconsistent practices. In addition, the audit expectation–performance gap allows us to analyse the implications of ISA 720 on the gap and to see if it has narrowed or widened as a result of the revision. This literature review has revealed a number of knowledge gaps that formed the basis for the current study and is discussed next.

2.7 Research questions

As stated in Chapter 1, the objective of this study is to investigate how auditors audit "other information". Little is known about current practices related to the review of "other information" when auditors audit financial statements. The current literature indicates that "other information" is useful in supporting users in their decision-making and ISA 720 also deems "other information" to be of public interest. Hence, the fundamental aim of this research is to develop a better understanding of the day-to-day realities for auditors with respect to "other information". This then provides an insight on this important research topic This research collected views of audit practitioners in New Zealand on the following research questions:

RQ1 What do auditors perceive to be their role and responsibility for "other information" while auditing financial statements?

RQ1 allows us to consider the degree to which auditors view of their roles and responsibilities coincide with those of standard-setters and other parties.

RQ2 How does ISA 720, both current and revised versions, affect practice and what challenges do auditors face in implementing its requirements?

In contrast to RQ1, RQ2 considers how auditors implement the requirements of ISA 720 in a real world setting and provides auditors with an opportunity to reflect on issues faced in implementing ISA 720.

RQ3 What are the implications of the findings for RQ1 and RQ2 for the audit expectation gap?

RQ3 places the evidence obtained in connection with RQ1 and RQ2 in the context of the audit expectation–performance gap, thereby providing a basis for assessing auditors' performance and determining what actions, if any, are needed to address any expectations gap that might have arisen with respect to ISA 720.

The next chapter explains the research methodology and method in gathering, collecting, analysing, presenting the findings and answering the research questions.

Chapter 3 – Research methodology and method

This chapter explains the research methodology and method used for this study. The design of the research is determined by the nature of this study which falls within a qualitative paradigm. Evidence is collected through semi-structured interviews with audit partners from various auditing firms in New Zealand.

This chapter is organised in the following way. First, it details the research methodology; second, it analyses the research method; third, it documents the detailed research process; fourth, it introduces the managing of interview data and the process of data analysis; and fifth, it outlines the limitations of this study and concludes with a summary.

3.1 Theoretical framework

To answer the research questions, an in-depth understanding of audit practitioners' experiences and thoughts are crucial. This will require direct contact between the researcher and the practitioner as such "proximity enables the researcher to obtain personal understanding of the realities and minutiae" (Patton, 2002, p.151). Thus, a qualitative and interpretive research approach is appropriate for the current study.

Qualitative research enables researchers to gain an in-depth understanding of the "why and how" for certain phenomenon (Taylor & Bogdan, 1998). This study aims to understand how auditors engage with "other information" and apply ISA 720. Thus, the essence of this study is an interpretive exploration into the engagement of auditors regarding their application of ISA 720. It is an exploration of how subjectivities shape auditors' duties. No participant will have the same interpretations and expectations of the terms, nor do I as the researcher. Due to its subjectivity, this research will be undertaken using the ontological perspective of a constructionist and the epistemological stance of an interpretivist.

A constructivist considers social entities as social constructions built up from the perceptions and actions of social actors (Bryman & Bell, 2011). Given the fact that audit is itself a "social phenomenon" (Flint, 1988), this stance is most fitting. Interpretivism provides an understanding of social reality based on the subjective interpretation of the researcher (McKercher, 2010). This means that I acknowledge that my findings are subjective and open to interpretations and, that my experiences and knowledge will influence the conclusions reached in this study.

3.2 Research method

Patton (1990) suggests that qualitative methods "are ways of finding out what people do, know, think, and feel by observing, interviewing, and analysing documents" (p.94). This section is organised into two parts. First, it gives the rationale for using interviews for the current study; and second, it identifies the weaknesses inherent in interviews and discusses how these weaknesses are addressed.

3.2.1 Interviews

Interviews are employed for this study as they provide the best possible understanding of the problems (Taylor & Bogdan, 1998) and allow researchers "to put behaviour in context and provide access to understanding their action" (Seidman, 2006, p.10). Interviews are flexible and also enable an in-depth understanding of the research topic (Cassell & Symon, 1994).

Interviews allow participants to express themselves freely according to their own thinking, in contrast to questionnaires which may constrain people's thinking with only a selection of alternatives to choose-from (Ghauri & Gronhaug, 2005). Face-to-face interviews are chosen because the physical presence of an interviewer often enhances the interviewer-respondent rapport. The interviewer is able to further enquire, respond to questions and clarify the meaning of questions to minimise misunderstanding (Shuy, 2003). It also allows the interviewer to access the non-verbal information expressed by interviewees through gestures, and facial expressions (Knox & Burkard, 2009). Moreover, it is easier to establish trust and openness during an in-person interview allows deep descriptions of interviewees' experiences (Polkinghorne, 1994). Furthermore, interviews more effectively encourage interviewees' responses to "why" and "how" questions in order to address the research questions of this study. The interviewer may also pick up emerging themes from the answers provided by the interviewees, which could lead to further questions and.

Semi-structured interviews will be used, rather than structured or unstructured interviews. This is because the former may engender leading questions, shaping the interview too much and not allow themes to emerge. Also, it may not provide an in-depth insight into an auditor's application of ISA 720. The latter, given the context, may lead to conversations going off-topic, with the data becoming too fragmented to generate any useful findings.

Semi-structured interviews allow certain themes to be discussed while being flexible (Bryman & Bell, 2011) so that “the interviewees have a degree of freedom to explain their thoughts and to highlight areas of particular interest and expertise they felt they had” (Horton, Macve, & Struyven, 2004, p. 340). Semi-structured interviews use an indicative guide which makes sure that key questions are consistent. Furthermore, a guide facilitates data analysis and ensures comparability of responses (Patton, 2002) (see Appendix 2 for the interview guide).

However, there are weaknesses with interviews which need to be addressed. Interviews can be very time consuming and are expensive to conduct (Seidman, 2006) as they may involve travelling, taking the initiative to make contact and transcribing the recordings. However, the costs are compensated by the richness of data collected. As Seidman (2006) states, “any method of inquiry worth anything takes time, thoughtfulness, energy and money” (p.12).

Another concern associated with interviews is the reliability of interviewees’ responses, or a reluctance to respond to questions due to personal circumstances. To minimise this risk, the key is to build an open and honest relationship with interviewees (Taylor & Bogdan, 1998). Knox & Burkard (2009) also share this view and comment that:

> *the strength of the interviewer-participant relationship is perhaps the single most important aspect of a qualitative research project: it is through this relationship that all data are collected and data validity is strengthened*
>
> *[p. 569].*

The strategies the researcher used to establish a good relationship and obtain valuable answers from interviewees included creating a good impression through appropriate attire and professional greetings; asking questions in a less formal way but in a polite manner; making the tone consultative; and assuring interviewees of confidentiality. The strategies applied to overcome the weaknesses associated with interviews were addressed during the research process.

3.3 Research process

This section details the research process of how the interviews were planned and conducted. Interviews are a complicated and involved process, requiring planning and preparation (Qu & Dumay, 2011). They also require particular skills such as intensive listening and note taking. At the pre-planning stage, a number of questions needed to be considered, including who to interview, how many interviews were appropriate, how to approach the participants and how the interview data would be analysed (Qu & Dumay, 2011). This section consists of four sub-sections. First, it gives the reasons for the number of participants; second; it explains why these participants were chosen; third, it explains how participants were recruited; and last, the detailed process for conducting the interviews is explained.

3.3.1 Sampling

Due to the nature of the research, purposive sampling was utilised, focusing in-depth on a small, deliberately selected sample. Lincoln and Guba (1985) explain purposive sampling as "sampling done with some purpose in mind" (p. 202). This enables researchers to gain insight and deepen their understanding of the phenomena they study (Patton, 1990). This technique led to a range of participants who formed a rich source of varied research evidence. The next section provides a profile of the interviewees.

3.3.2 Profile of interviewees

The interviewees in this study comprised of financial auditors practicing at partner level in New Zealand. The interviewees were selected based on their primary role. Audit partners formed the most suitable group of interviewees to ask regarding their experiences and views in applying ISA 720. This is because of their direct involvement in the audit process, where the review of the "other information" comes near completion of the audit and is done by the partner of the engagement before the audit report is signed-off.

Nine audit partners were chosen for this research given the time-frame of this thesis. Of the nine audit partner interviewees; six were from "Big 4" firms; one from a mid-tier firm; and two were public sector auditors from the Office of the Auditor General. No partners were sought from smaller or local boutique firms as they are not likely to deal with the type of information this study is concerned with. For example, upon contacting a smaller firm, the response given was:

> *We deal with mainly unlisted/non-issuer private companies/subsidiaries, or tier 3 and 4 not-for-profits. Generally, the type of narrative information you are looking at is non-existent on the financial statements we audit*
>
> *[I0].*

He went on further and said:

> *I'm not a licensed auditor, merely a qualified one. I would contact the licensed auditors who would more likely deal with this information within the financials they audit*
>
> *[I0].*

The following table shows the demographics of the interviewees:

Interviewee	Big-4	Mid-tier	Public sector	Position
1	✓			Partner
2			✓	Audit Director
3			✓	Audit Director
4	✓			Partner
5	✓			Partner
6		✓		Partner
7	✓			Partner
8	✓			Partner
9	✓			Partner

Table 1: Demographics of interviewees

After determining the appropriate participants for this study, the next step is how to recruit them.

3.3.3 Recruiting interviewees

Audit partners were mainly recruited through e-mail. Once participants indicated that they were available to be interviewed, the researcher contacted the interviewees directly by e-mail or telephone to arrange meetings for interviews.

All participants contacted had a vague idea of the research topic, as the researcher sent an email, outlining the research topic, the nature of the research, and the rights of the participants.

3.3.4 Conducting the interviews

All interviews were conducted at the interviewees' offices. The researcher followed a standard protocol at each interview meeting. For example, the researcher greeted the interviewees, introduced herself and then thanked them for their participation. In doing so, the researcher was working to establish rapport from the beginning of the interview. To this end, the researcher gave a brief introduction outlining the research topic, the nature of the research, and the rights of the participants. The researcher also requested permission to record the interview. All interviews were recorded. These protocols were established to ensure interviewees felt comfortable, and therefore more likely to provide genuine answers.

The researcher adopted a relatively loosely-structured interview approach. According to Alvesson (2003), qualitative interviews are “relatively loosely structured and open to what the interviewee feels is relevant and important to talk about, given the interest of the research project” (p. 13). All interviews started with a broad open-ended question as the interviewees would be more likely to share more about their experiences and views on subsequent open-ended questions.

Semi-structured interviews were a successful approach for this study as they allowed interviewees to share in-depth information. Interviewing also provided the flexibility for the researcher to ask questions in a different order and inquire a little deeper into the answer given during an interview. In some cases, where the researcher did not understand the responses, she would ask the particular interviewee to explain (“What do you mean by… ?”) or rephrase what the particular interviewee had just said (“Do you mean that…?”). This was done to clarify the meaning with the interviewees.

Each interview lasted between 20 and 60 minutes. The researcher purposely did not schedule a time-frame, to allow the participant to feel more comfortable and at ease.

Although the interviews were recorded, the researcher still took notes of key points, examples given, interesting quotations and emerging themes that the interviewer shared (Ghauri & Gronhaug, 2005; Taylor & Bogdan, 1998). Patton (1990) points out that “the use of the tape recorder does not eliminate the need for taking notes” (p. 348). At the end of each interview, the researcher thanked the interviewee again for his or her time and for their valuable contribution to the research.

3.4 Interview Data

Interview data provide a considerable amount of information (Seidman, 2006) which needs to be organised and managed in an orderly manner. This section explains how the interview data was recorded and transcribed and how to determine if the interview data is trustworthy.

3.4.1 Recording and transcribing

There is debate on whether interviews should be recorded. Seidman (2006) considers that in-depth interviews should “no doubt” be recorded (p.114) while Lincoln and Guba

(1985) think that recorders can be seen as intrusive or may fail technically so they "do not recommend recording except for unusual reasons" (p. 241). However, modern recording devices are no longer seen as intrusive.

There are a number of benefits from recording the interviews. Recording enables the researcher to transcribe the interviews readily and reliably. For example, if there is anything unclear in the transcript, the researcher can always refer to the original source to check accuracy (Seidman, 2006). As the interviewer is an integral part of the conversation, recording allows her to focus on the interview better, rather than being busy taking notes (Hayes & Mattimoe, 2004). The concern with recording is that it may discourage interviewees from openly sharing some information (Seidman, 2006). The researcher used a small digital recorder which was not seen as intrusive. After the researcher explained that the recording was only for data analysis and would be kept securely and confidentially, the interviewees gave their permission for recording to take place. All audio files were stored on the researcher's computer which was password locked in her office. The interviewees were given the opportunity to verify the transcripts prior to analysis. The transcripts (editable Word documents) were sent back to the interviewees, who were then asked to review them, provide feedback and make changes. Further analysis was not taken until the approved transcripts had been returned.

3.4.2 Data evaluation

The interview data collected from individuals are subjective in nature. The interpretation of the data by the researcher is also subjective. However, research findings must be trustworthy. Lincoln and Guba (1985) stated that, "… conventional trustworthiness criteria (internal and external validity, reliability and objectivity) are inconsistent..." (p.42) with qualitative research methods. Therefore, they suggested "credibility, transferability, dependability and confirmability" as substitute criteria coupled with "corresponding empirical procedures" to "absolutely affirm the trustworthiness…" (Lincoln & Guba, 1985, p. 43). These substitute criteria for trustworthiness, credibility, transferability, dependability and confirmability are discussed below.

3.4.2.1 Trustworthiness of interview data

3.4.2.1.1 Credibility

"Credibility" substitutes the concept of "internal validity" in quantitative research. It answers the questions "How can I know that what the interviewees said is true?" (Seidman, 2006, p. 23). In a constructivist's inquiry, there is no single objective reality. Instead, reality is multiple and is interpreted by individuals in their own context (see section 3.1). Therefore, credibility "focuses on establishing a match between the constructed realities of respondents and those realities represented by the researcher" (Sinkovics et al., 2008, p.699). This in essence, means that the researcher can find evidence to verify interviewees' comments. The effort of finding evidence to prove credibility rests with the researcher (Thomas & Magilvy, 2011).

Credibility can be established through triangulation (Cutcliffe & McKenna, 1999; Taylor & Bogdan, 1998; Tracy, 2010). Triangulation increases credibility through involving multiple sources of data, methods, and theoretical frameworks (Lincoln & Guba, 1985; Tracy, 2010). The use of multiple data sources is a strategy that also enhances data credibility (Patton, 1990). Triangulation was achieved through data gathered from difference sources (for example, auditors in public practice, private practice, and existing literature). The researcher also found similarities in the interviewees' answers across all participants in this study, which enhances confidence in the interview data. The findings in this study also triangulate to the literature and to some news in the media.

3.4.2.1.2 Transferability

"Transferability" parallels the concept "external validity" where it shifts the responsibility for the transfer of the research findings from the researcher to the reader. In order to do this:

> *Thick description [is] necessary to enable someone interested in making a transfer to reach a conclusion about whether transfer can be contemplated as a possibility… [Therefore, the researcher] is responsible for providing the widest possible range of information for inclusion in the thick description… that makes transferability judgement possible on the part of potential appliers.*
>
> *[Lincoln and Guba, 1985, p. 316].*

Thus, to establish transferability of this research, information was provided in a detailed manner with many quotations in the interviewees' own words (see Chapter 4) and details of the research process.

3.4.2.1.3 Dependability and confirmability

"Dependability and confirmability" are the naturalistic equivalent of the conventional concept of "reliability and objectivity" respectively. Lincoln and Guba (1985) suggested that an "audit trail" be maintained throughout the course of the research to provide a level of assurance for dependability and confirmability. An audit trail “consists of documentation of the nature of each decision in the research plan, the data upon which it was based, and the reasoning that entered into it” (Owens, 1982, p.13). This enables the verification of the consistency and credibility of research procedures and makes it possible to reproduce this study at another point in time. The audit trail in this study is this method section.

3.5 Data Analysis

Qualitative data analysis is an intuitive and inductive reasoning process (Seidman, 2006; Taylor & Bogdan, 1998). It involves

> *working with research evidence, organising it, breaking it into manageable units, synthesising it, searching for patterns, discovering what is important, what is to be learned and deciding what you will tell others.*
>
> *[Bogdan & Biklem, 1982, p.145].*

An interview generates large amounts of data (Seidman, 2006). It is an intellectual job to make sense of interview data and organise it in a presentable and meaningful order (Ghauri & Gronhaug, 2005). The data analysis is based on three stages: 1) identifying themes and developing concepts and propositions; 2) coding and refining one’s understanding of the subject matter; and 3) interpreting data in the context in which they were collected (Taylor & Bogdan, 1984).

3.5.1 Identifying themes

Qualitative data analysis starts with the data collection process (Taylor & Bogdan, 1998). This stage involves familiarisation with the interview data. The researcher reads the transcripts multiple times, looking for recurring ideas, language, patterns of beliefs and actions in the transcripts (Rossman & Rallis, 2012). This ongoing process helped the researcher to constantly theorise and make sense of the data collected. This recurring information provided concepts and propositions. For instance, many interviewees talked about the Financial Markets Authority (FMA). The researcher had not paid much attention to the FMA before collecting the data. Therefore, the researcher studied about the FMA in relation to this study and ended up finding a new avenue for future research.

3.5.2 Coding the data

The interview data were coded using NVivo 11, a software package for analysing qualitative data. Using computer assisted qualitative data analysis software (CAQDAS), such as NVivo, formalises the data analysis of qualitative research (Sinkovics, 2008). It can enhance the trustworthiness and quality of data because it provides transparency for how the data are coded (Huberman & Miles, 1994).

The coding process was smooth. Here, the researcher read the interview transcripts numerous times to gain an understanding of the responses and listened to the recordings to check the accuracy of the transcripts. The interview transcripts were imported into NVivo as sources. Following this, the researcher then coded the transcripts with a "node" whenever a meaning of a sentence emerged. As coding progressed, it became apparent that many concepts were related and these were classified into a series of categories and related sub-categories. This facilitated greater understanding of the body of evidence through examining key themes. However, NVivo cannot be a substitute for the researcher to intelligently analyse or interpret the data (Dolan & Ayland, 2001). It is merely a mechanism to sort data (Rossman & Rallis, 2012). The researcher was in full control of the process of the categorisation and interpretation of the data.

3.5.3 Interpreting and presenting data

Interpreting the data involves understanding the literal, unedited statements of interviewees in the context in which they are collected (Taylor & Bogdan, 1998). It is a process of making sense of what the interviewees said and then communicating the meaning to the readers (Rossman & Rallis, 2012). Inductive data analysis was applied to this research. This is a process for "making sense of field data" (Lincoln & Guba, 1985, p.202). The research was driven by evidence gathered by qualitative interviews. This meant that the researcher worked "from the interview evidence specific to participants to a more general conclusion" (Schwandt, 2001, p.125).

After the researcher coded the data into main themes, then into nodes and sub-nodes, she looked into each sub-node to interpret and summarise the information provided by the interviewees. For example, within the theme of "scope", many interviewees commented that the timing of the "other information" given to them was challenging. The researcher then paid attention to the different reasons for it being a challenge. The researcher chose the common reasons that were mentioned by a number of different interviewees. The quotations that best represented common views are reported in the findings chapter.

In order to maintain interviewees' confidentiality, each was assigned a unique reference number. Quotations in findings are presented with the reference number of a particular interviewee. For example, I1 represented interviewee one. The interviewees are not numbered in any particular order.

3.6 Limitations

A limitation to this research could have been gaining access to the appropriate personnel for the interviews, particularly auditors at a partner level. They are presumably busy people and a student's research may be overlooked and not be at the top of their priorities. Also the interview may be seen as a threat to their organisation's legitimacy. There may also be concerns over information about actual processes being disclosed by the researcher (Gendron, 2000). To lessen this concern, the research topic was provided to the participants to allow the individuals to be acquainted with the research. The documents stated the objective(s) of the research (i.e. how auditors apply the ISA 720) and specific aspects of the interview, including confidentiality and anonymity for participants and their firms. The participants were provided with a copy of the transcript to ensure they were comfortable with what was recorded and they were able to correct information before the analysis. In addition, they have the right to withdraw from the study at any time.

This study involves a relatively small sample of professional auditors from New Zealand, therefore, the generalisability of research findings are restricted. However, Gray, Collison, French, McPhail and Stevenson (2001) noted that the ideas and experiences of international auditors are global in nature. Since a large number of New Zealand auditors are affiliated with global firms (such as the "Big-4" firm), they will fundamentally face similar audit issues as international auditors. Furthermore, the auditing standards New Zealand auditors are expected to comply with are consistent in all material respects with International Auditing Standards (NZICA, 2010). In addition, the audit methodologies and practice standards the "Big-4" and other audit firms apply are universally adopted by their global firm partners. Thus, this study would be relevant to the audit profession globally.

3.7 Chapter summary

In summary this chapter introduced and explained the choice of research methodology and method. Interviews were chosen as the research method as they can be flexible and are able to generate rich information. The trustworthiness of the data is ensured by providing details of the process of the research. How interview data are evaluated and managed are also explained along with the limitations. The next chapter presents the interview findings.

Chapter 4 – Research findings

As stated in chapter 1, the objective of this study is to investigate auditors' consideration of "other information" in the context of ISA 720. More specifically, the study seeks answers to the following research questions (see chapter 2):

1. What do auditors perceive to be their role and responsibility for "other information" while auditing financial statements?
2. How does ISA 720 (both the current and revised versions) affect practice and what challenges do auditors face in implementing its requirements?
3. What are the implications of the findings for the audit expectation gap?

The next section discusses the interview findings for the first research question. References to ISA 720 will refer to the extant standard unless stated otherwise. Quotations in italics are actual interview responses.

4.1 Auditors' perception of "other information"

Chapter 2 outlined the overwhelming support and need for strengthening auditor's responsibilities with respect to "other information". To answer research question 1, interviewees were asked about two areas: (4.1.1) their general awareness of "other information"; and (5.1.2) perceptions of their current role in the context of ISA 720.

4.1.1 Awareness of "other information"

The audit partners interviewed are familiar with "other information" in the context of ISA 720. An interviewee described the process in applying the standard:

> *…what I'll do is I'll read it. I'm looking through it for anything that I think is inconsistent with what I know about the financial statements [and] about the company…*
>
> *[I5].*

A government auditor described their process and experience in applying their equivalent standard (AG-4 revised):

> *We look at the whole performance which will include words, descriptions, claims, flow charts, and strategies. Having read the whole report of performance information we would then see how it gels together. It would only be materially wrong if you felt that something was misleading, it wasn't consistent with the message of the targets and reported performance until we've seen the whole document because we don't want anything that's inconsistent.*
>
> *[I2].*

Documents containing audited financial statements vary in detail and length. ISA 720 determines what should be reviewed and what is outside the scope of the audit. The following quote highlights an auditor's main area of focus:

> *Our focus is on anything that is directly related to commentary on the financial statements. If it's a director's report or some other report that is focusing directly on the financial statement, that's our key focus area that we would do detailed work on*
>
> *[I6].*

The same interviewee described the process applied when commentary is provided outside the annual report:

> *If it's part of the annual report [and] there are other supplementary reports going, we would also read those just to make sure there's nothing in those that would highlight something that would have an impact on the financial statements*
>
> *[I6].*

Another interviewee remarked that ISA 720 is not as stringent to comply with relative to other standards. This suggests a lower level of assurance being provided in relation to the "other information" than in other areas of the audit:

> *We make sure if there's reconciliations back to GAAP that they actually make sense and we know where the numbers have come from but it is a lesser degree of rigour than is applied to the actual financial statements themselves*
>
> *[I7].*

The next section presents interview findings on the perceived current role of auditors regarding "other information".

4.1.2 Current role of auditors regarding "other information"

> *[A]n audit opinion at the moment doesn't cover "other information" but there is an obligation under [ISA 720] for us to read other information and make sure it's consistent with audited financials*
>
> *[I9].*

The findings of this study indicated that the audit partners interviewed are, in general, aware of their duties with regard to "other information". This is not a recent phenomenon, as the auditor's understanding of the entity and its environment acquired during the audit is fundamental to the risk assessment process and is carried out in compliance with *ISA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*. Auditors have a responsibility for any documents that contains audited financial statements:

That's effectively what your duty is because something is going out that's accompanying your audit report and therefore there's a connection and because you've got this connection, it's making sure they hang together

[I4].

Another interviewee agreed:

Whilst we're not opining over that commentary it would be a bad look if that information is inconsistent with the financial statements

[I8].

A few of the interviewees highlighted related concerns. One such concern is that there is a perception that the level of responsibility over "other information" is increasing and has perhaps extended well beyond what they are primarily responsible for:

[Our] primary role is to make sure the financial statements are fairly presented. We look for consistency, mainly, with those other statements and those other reports but the obligations are increasing

[I9].

However, the following interviewee stated that they already perform what is required of them which suggests that standards are "lagging" (Humphrey, 1992):

Our internal view on these things is that we effectively have a level of responsibility over everything that appears in the annual report that includes our opinion no matter whether it's in the financial statements or in broader information. We've probably already been looking beyond what our strict requirements are

[I1].

Nevertheless, the benefit from the auditor reading and considering "other information" is a signal given to management and those charged with governance that such information is important to users of the financial statements. An interviewee explained how management has taken on this signal:

I think [it is being taken seriously] because of the liability issues and the directors' awareness around them. [They could be] getting themselves into difficulty if they are seen to be misleading….I have seen an improved focus from the experienced directors around making sure that the company isn't making misleading statements… I think there has been an improvement in the quality of qualitative information because people understand that there are concerns of risks if they were to mislead

[I6].

Another interviewee commented on the positive implications of the standard:

[Management commentary is] getting better because it's now under more scrutiny than it was [before]. [Management] had to lift their game. They used to be able to get away with pretty much anything they wanted… it wasn't validated...they made all these big wild claims and it didn't stack up and that [has] really put the onus on auditors to put more focus [on reading "other information"]. ISA 720 certainly puts a bit more emphasis on us to make sure we read it all

[I1].

With regard to public sector audits, the ISA 720 equivalent is AG-4:

[The Auditor-General] takes the International Auditing Standards and ... she adds onto what's required to meet her brief under the Public Audit Act… What we're doing is a step up from how private sector audits are auditing Spark or Fletcher Building and other companies listed on the Stock Exchange. So we're doing more work at a higher quality

[I3].

This is an indication, that both in private and public sector audits, auditors are aware of the importance "other information" has on the understanding of the financial statements.

In summary, auditors' are well aware of the importance of the "other information" relative to the audited financial statements. They identified their primary role as ensuring the credibility of the audited financial statements and that the statements are not undermined by the "other information". Therefore, they review it to ensure consistency between the two parts. In addition, as the audit report is issued with the annual report, it is important that the audit report reflects the auditor's opinion on the whole report. Otherwise, auditors are opened to legal liability. Thus, auditors feel the need to review the entirety of the annual report. As a result, they perceive their roles to be somewhat broader than what required in ISA 720.

The next section addresses research question 2, which considers how ISA 720 affects practice and the challenges auditors face in implementing its requirements.

4.2 Effect on current practice and challenges

This section covers the impact ISA 720 has on current audit practice and the challenges auditors face supported by interview findings and literature. The exposure draft of the revised standard made modifications according to these headings: objective; scope; definitions; work effort; documenting; responding; and reporting. Thus, these headings are used in this section.

4.2.1 Objective

ISA 720 certainly puts a bit more emphasis on us to make sure we read it all

[I1].

Under the current ISA 720, the objective of the auditor is to read and consider the "other information" in order to identify material inconsistencies which contradicts information in the audited financial statements or that may indicate that the audited financial statements have been materially misstated (see ISA 720, paragraph 4). Under the revision of ISA 720, there a shift in objective which puts more focus on inconsistencies with the *auditor's understanding of the entity and its environment* rather than just inconsistencies with the audited financial statements (see ISA 720 (revised), paragraph 11 (B)). Due to the subjectivity in the knowledge an auditor acquires about the entity and the shift in objective, this blurs the distinction between managements' and auditors' responsibilities with regard to what should or should not be included in the annual report.

4.2.2 Scope

Another change made to ISA 720, was the expansion of the scope. ISA 720 (revised) expands the scope from "other information" in documents "containing" the audited financial statements (see extant ISA 720, paragraph 2) to also include "other information" that "accompanies" the audited financial statements (see ISA 720 (revised), paragraph 12(a)). This is because the IAASB recognised that "other information" may be located separately from the audited financial statements (IAASB, 2011). The expansion of the "scope" may have implications for the audit expectation gap as users may not be able to recognise the technical difference in the wording:

> *[T]here [i]s a potential scope problem and an expectation gap problem [regarding] what we're doing, what people think we're signing off on versus what we are signing off [on]*
>
> *[I9][Emphasis added].*

4.2.3 Visuals

"Other information" may be presented in the form of visuals, such as, tables and graphs. A search of current literature resulted in limited findings as to how auditors "review" graphs. All interviewees review graphs by going back to the original source to verify the data to ensure they reflect the audited financial statements. An interviewee described the process of their review, noting that management do make errors pertaining to graphs. This highlights the need for auditors to review graphs to ensure they are consistent with the audited statements:

[W]e'll get the client to send us the spreadsheets they've created so we can then validate the data and make sure the graphs [have] actually been calculated correctly and also take into account all of the data they are supposed to take into account. We've had instances where clients [have] made errors. [Y]ou might have a spreadsheet where they've taken several rows of data and may have missed a row or column

[I1].

Another interviewee noted some of the challenges when reviewing graphs; the following example is evidence of "selectivity" where management deliberately chooses certain factors that will portray a favourable result (Jones, 2011; Beattie & Jones, 1997):

If a company [has] made surpluses over the last couple of years but made losses in the previous years, [management] may not want to graph back that far and may want to give a breakdown of certain revenue and expenditure streams [without] reporting the total to suit their purposes ... so it is a difficult area

[I6].

However, when undergoing a review of graphs/tables, auditors do not "audit" the graph but do "review" it for consistency. This is an example of a "limited procedure" the IAASB was careful to note. An interviewee stated that:

We are not passing an opinion on those graphs but we want to make sure that they're consistent

[I9].

On another note, two interviewees highlighted the concept of "streamlining" whereby:

[Management] incorporate accounting policies and notes throughout the document as opposed to the traditional primary statements, policies and then notes

[I8].

This "streamlining" concept is becoming increasingly important as Integrated Reporting is likely to encourage this trend. As a result, the use of visuals, such as graphs, tables and photographs, is likely to increase:

We [auditors] do take a look at [visuals]... a part of streamlining is to use more visual information as part of your presentation

[I4].

If visuals will be used more prominently throughout financial reports, regulatory guidelines should be put into place as they are prone to manipulation (Beattie & Jones, 1997) (see section 2.1.3 for review of visuals).

4.2.1.2.2 Web documents

One interviewee is aware of the risks associated with web documents. ISA 720 (revised) states that the auditor has no responsibility under this ISA to "search" for "other information" (including information on the entity's website), nor perform any procedures to confirm that "other information" is appropriately displayed (see ISA (revised), paragraph A19):

> *[T]here is a risk now in audits that entities [using the] electronic medium ... can post reports that we aren't aware of. [T]he annual report for example, could go up with the financial statements and our audit opinion and they may choose to supplement that with other information. If it's not directly related to the financial statements or part of the preparation of the financial statements and the representations that we've received on those statements from the directors, we wouldn't do a lot of extra work on other documents*
>
> *[I6].*

The same interviewee provided an example of how web documents may have an impact on the audited financial statements:

> *We audit some irrigation companies and it's possible they could have a report from Environmental Canterbury saying that they've breached some terms of their consent... that would have potential financial impacts. [W]hat we wouldn't want to see is information being put out that... may not in itself relate directly to the annual report but could have significant financial implications [if it's not balanced]*
>
> *[I6].*

All interviewees acknowledged the difficulties surrounding web documents due to the lack of control once they are uploaded:

> *Once the financial statements are uploaded to the website, we've got really no control over it so a client can add reports around the financials once they are uploaded that we haven't seen*
>
> *[I9].*

It seems that the ISA 720 (revised) remains unchanged with regard to web documents not being considered "other information". However, ISA 720 (revised) acknowledges the website as a possible distribution mechanism (see revised ISA 720, paragraph A4 and A19) but unless the documents clearly make up the annual report, auditors do not appear to have responsibility for web documents.

4.2.1.2.3 Timing

A challenge auditors face is the timing of "other information". The "other information" to be published in the annual report is often not available until the late stages of the audit:

> *[Q]uite often, you'll be auditing the financial statements and coming to the conclusion of the audit of those statements but [management] will still be pulling together the "other information" which is going in the annual report... you tend to get that quite late and it's making sure that you build in enough time to allow you to go through that information and be able to pass comments back [so] that the client then has time to update or correct things*
>
> *[I1].*

The ability of an auditor to influence management to make changes to "other information" once the audit report has been issued is significantly reduced, unless the auditor threatens to withdraw the audit report, which is a "big call" for an auditor to make and is hardly ever required in practice. Thus, the level of tolerance for "material inconsistencies" will be higher if "other information" is made available after the issue of the audit report rather than before the report is issued (OAG, 2013). "Other information" is typically provided to the auditors at a late stage of the audit of the financial statements but this will have to change if auditors are expected to do more work on the "other information":

> *One of the things that some directors or management maybe haven't realised is that in the new [audit report standard] we are required to put a statement in [the audit report] to reflect that we've actually read that "other information" and if we haven't, because it wasn't ready, we need to have a statement saying that we haven't read the "other information" on the basis [that] it wasn't ready*
>
> *[I7].*

An interviewee notes that the new audit report standard will require management to prepare the commentary at an earlier date to ensure the annual report is complete on the day auditors sign their opinion:

> *[H]istorically a lot of companies have the [audited] financial statements but they don't actually write... the chairman's report and all that other commentary until later ... it can be a couple of months after you sign your opinion on the financial statements and even in some cases release that to the stock exchange before you do the annual report. So we're now saying to them, you realise that you've got to have your document ready to go on the day we sign our opinion, and so it actually pulls a whole lot of their workload forward*
>
> *[I7].*

ISA 720 (revised) sees an expanded scope and work effort involved with the "other information". Perhaps the ISA 720 (revised) should require auditors to communicate this to their clients early in the audit planning phase to ensure the "other information" is received in a timely manner (e.g., via the engagement letter).

4.2.1.3 Definition of "inconsistencies"

ISA 720 defines "inconsistency" as "other information" that contradicts information contained in the audited financial statements" (see extant ISA 720, paragraph 5(b)). ISA 720 (revised) extends this definition to "include information that is incorrect, unreasonable or inappropriate; or is presented in a way that omits or obscures information that is necessary to properly understand the matter being address in other information" (see exposure draft, paragraph 9(a)). The inclusion of these concepts expands the definition and interpretation of the term "inconsistency" well beyond its meaning generally accepted by most people and has strayed far from the current ISA 720's meaning.

Determining what constitutes being "unreasonable" or "inappropriate", or whether something has been omitted from, or otherwise obscured in, requires a high level of professional judgement. These items may be difficult for practitioners to identify. However, omitting information that is expected to influence the economic decisions of the users for whom the auditor's report is prepared can potentially seriously mislead users. Thus, it is considered beneficial to include the concept of omission in the definition of "inconsistency". This new definition implies that the auditor should assess the "completeness" of the "other information" which conveys the idea that the auditor is required to evaluate assertions in the "other information" that could be partially or completely unrelated to the financial statements. Depending on the nature of the "other information", the auditors' understanding of it and what it might take for it to be considered "complete" adds another layer of complexity and subjectivity to the practicality of the standard.

Interviewees saw a need for a high level of "expertise" in order to identify "omissions":

> *Everything relies on expertise. You have to be an expert to do it. You need industry knowledge to make sure it makes sense. [W]hen you're the audit partner and you're signing off on things, the guys can go through the audit and make sure that everything that's sitting in there agrees to things [in the financial statements] but there could be something environmental that's happening that should be in the accounts that the client's not going to prepare a piece of paper for. That relies on you to understand what's going on in the industry*

[I8].

Another interviewee also emphasised the importance of having expertise:

> *Auditors are appointed to clients typically on the basis of their experience … for example, I won't audit a bank or financial institutions because I don't have experience in that and I won't audit insurance companies because I just don't know enough about the industry to be able to properly identify all the potential issues*
>
> *[I5].*

On the other hand, yet another interviewee remarked:

> *Very seldom is the other information more complex than the financial statements. It can be industry specific… but it's generally not that complex*
>
> *[I6]*

This then, presents the risk of inconsistency in practice and leads to questions over the work effort and conclusions reached by different auditors. This could diminish the comparability of audit reports and detract from the value of such reported to users. The definition of "inconsistency" and the phrase "inconsistency between other information" (in ISA 720 (revised)) seem to be unclear while the concepts of "material misstatement of fact" from ISA 720 seem to be clearer. The terms used in ISA 720's (revised) definition of inconsistency appear too subjective to be applied effectively and consistently in practice. The current ISA 720's definition on "inconsistency" appears to be more clearly defined as "information that contradicts information in the audited financial statements" which clearly explains the basis of comparison to "other information". More importantly, the primary objective of the auditor's responsibilities for "other information" (i.e., consistency with the audited financial statements) is arguably better reflected.

4.2.1.4 Work effort

The meaning of "inconsistency" has shifted between the extant and revised standard, moving from a difference between "the other information and the audited financial statements" to an "inaccuracy in the other information due to a difference identified by the auditor between the other information and the auditor's understanding of the entity and its environment acquired during the audit". This was seen as reasonable and understandable to the auditor's interviewed as it is consistent with the current terminology used in ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. It is evident that auditors do a great deal more than what is already required of them under ISA 720 (see section 5.1.2):

On the information contained next to the financial statements, what I'll do is I'll read it, I'm looking through it for anything that I think is inconsistent with what I know about the financial statements, [and] about the company
[I5] [emphasis added].

Another interviewee further expresses this notion:

...what you want to do is check that there is nothing [that] you've identified during the course of your audit using the bank of knowledge you [have] got that's materially inconsistent with what's at the front
[I4] [emphasis added].

An interesting thought expressed by an interviewee was a claim that the standard was just putting into words what they have already been doing. This is consistent with Humphrey and Moizer (1990) and Humphrey et al., (1993) who argued that audit standards have been ineffective and are only articulations of existing auditing practice.

To be fair, [ISA] 720, it's not really changing what we've been doing for the past 10 years. We've sort of almost self-governed ourselves into a better practice
[I1].

4.2.1.5 Documentation

I think no matter how you word [ISA 720], the practical issues are the key risk...Auditors need to be aware of it... [An] important [issue] that we, as a profession, have struggled with is... how we document what we've done
[I6] [emphasis added].

The ISA 720 (revised) includes a new clause with regard to documentation which is a problem auditors have struggled with. ISA 720 (revised) states that the auditor shall document "the procedures performed under this ISA" (see ISA 720 (revised), paragraph 25). The work performed is to "read and consider" (see ISA 720 (revised), paragraph 14) and the requirements indicate that auditors must demonstrate "consideration" in their working papers. However, there may not be suitable documentation on the audit file to support the detailed "consideration" of content presented in "other information". These requirements will place onerous obligations on the auditor, especially where an auditor's expert is needed to work with the financial audit team to confirm there is no material inconsistency in the "other information" or "misstatement" in the financial report.

To "read and consider" may be interpreted narrowly and assumes that the auditor's understanding of the entity and its environment are documented on the audit file (see ISA 720, paragraphs 35 and 36). This ignores the fact that electronic audit files are used in today's audit which arguably contain far more information than it is possible for one auditor to have reviewed and understood. There may be information buried in the detail of files which are inconsistent with "other information" but it would be unreasonable for the auditor performing the review of the "other information" to know this. This "understanding" requirement of the auditor could be interpreted as the collective knowledge of the whole audit team, office or even the entire audit firm. However, typically, a review of "other information" is performed by a partner. It would be impractical for the whole audit team to review the "other information" in light of their personal understanding and it would be virtually impossible to get any meaningful review done on a firm-wide basis.

> *<u>[H]ow we document</u> that we've complied with [ISA 720] is actually quite an important part of the process because from an audit quality perspective, there has been some criticism of the profession. The challenge with this standard is how to practically implement [ISA 720] and how you document what you did*
>
> *[I6] [emphasis added].*

4.2.1.6 Responding

ISA 720's objective is for the auditor to respond appropriately when 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 (see ISA 720, paragraph 4). In addition, ISA 720 (revised) asks auditors to state whether the other information is consistent with the audited financial statements among other things. However, paragraph 22(c), proposes that the auditor is to state in the audit report that she/he "does not express (or will not express) an audit opinion or any form of assurance conclusion thereon" (see ISA 720 (revised), paragraph 22(c)). If the "other information" is neither audited nor reviewed, how much value can financial statement users and the general public place on the auditor's views on the "other information"? This also has implications of the audit expectation gap – will users realise that no assurance has been provided?

The revised ISA 720 raises concerns, because the standard potentially requires the auditor to either withdraw from the engagement (see paragraph 18(b)). Thereby, ISA 720 (revised) potentially places the auditor in a position of withdrawing from an engagement before issuing the audit report, even if the timing of the receipt of the other information is after the fiscal year end but before the report date, based on procedures that do not amount to an audit or review and do not actually affect the audit opinion. Is it practical for an auditor to consider withdrawing from a financial statement audit over a reporting issue that does not affect the financial statement opinion?

With ISA 720 being less stringent relative to other standards, interviewees noted that the standard is effective when or if they have identified a misstatement:

> *All of these things come into play much more when you [have] got a disagreement. When you've got a disagreement, what the standard does is highlight far more clearly what your responsibilities are and what the course of action is that you're required to take*
>
> *[I4].*

Another interviewee explained:

> *If we really disagreed with it then there are a series of remedies following standard 720. In practice, this doesn't really happen*
>
> *[I5].*

When the standard is taken literally, as long as the quoted figures mentioned in the "other information" are consistent with the audited financial statements, there is no guidance for auditors who disagree with the "tone", because the numbers are consistent:

> *It's very hard for me to say that it's wrong because as long as the number agrees to the financials then where do I go to with that?*
>
> *[I9].*

A number of the interviewees expressed a concern over the lack of guidance when no inconsistencies are identified and the numbers are accurate:

> *The words they're using in those reports are hard to validate. [A]ll you can say is "yes" [if] the numbers they're using are the same as what's in the audited financials. [T]he reasons why we can be comfortable with [saying "yes"], is quite a grey area in terms of it [being] consistent with what we've found in the audit*
>
> *[I9].*

As a result of the lack of guidance, the extent of an auditor's influence is limited and is confined to what the standard states:

> *We're always looking to kind of limit what the exposure will be and make it very clear because as an auditor, you can only control what you are told*
>
> *[I8].*

This implies there is a lack of guidance given to auditors concerning the "tone" of the "other information":

> *We often would have discussions with directors for potential changes but at the end of the day it's difficult to get them to change if they don't want to [I6];*
> *There are some practical implications around the wording [of ISA 720] and you don't have the obligation or jurisdiction to tell a CEO how to word something or*

what graphs they should or shouldn't put in. The intent is that there [is] no misleading information or information that doesn't align with [what] the financial statements are saying

[I6].

In this situation, another interviewee indicated that the amount of influence they have over management is dependent on the relationship with their client:

I'll make recommendations to management saying, "You may want to rethink the way you worded this, the tone of this may not come across right" and if you've got a good relationship with your client, they will listen to you. If you've got a combative relationship with a client then you may need to approach it in a slightly different way

[I1].

Another form of influence auditors can have on management is by referring to regulatory publications or standards, due to the lack of guidance for auditors in addressing the "tone" of the message management is trying to get across:

We tend to use or try and link back to publications that the FMA has issued or guidance that they have issued, because FMA registers quite high on directors radar [because] they don't want to be answering questions to the FMA. If the FMA says this "looks misleading", that's not a situation they want to be in. They want to be able to say, "No it's not, because here's what it means and we've shown that through this reconciliation"

[I7].

4.2.1.7 Reporting

When it comes to reporting, feedback from respondents to the IAASB's May 2011 Auditor Reporting Consultation Paper indicated a need for greater transparency about the work an auditor undertakes regarding "other information". ISA 720 (revised) provides additional transparency around the auditor's responsibilities regarding "other information" by articulating the auditors' responsibilities for the "other information" in the audit report (see ISA 720 (revised), paragraph 22(a), (b), (c), and (d)).

There are concerns about the inclusion of a statement in the auditor's report regarding material inconsistencies with "other information". The statement: "… we have not audited or reviewed the other information…" is likely to reassure readers even though no assurance is being provided.

The form of the statement "we have not identified any material inconsistencies" (see revised ISA 720, page 25) appears to convey a form of positive assurance regardless of the disclaimer language regarding “no audit opinion or review conclusion”. By including the auditor’s conclusion on “other information” in the auditor’s report that is otherwise prepared to express an opinion on the audited financial statements, there is a risk that the users of the report will expect the “other information” to be subject to the overall opinion expressed on the financial statements. This is concerning as it may contribute to the exacerbation of the audit expectation gap.

Referring to the new audit report standards, an interviewee suggested there will be a rise in future audit fees. ISA 720 (revised) will require the audit report to include:

1) A statement that management is responsible for the “other information”;
2) Identification of the “other information”;
3) A statement that the auditors opinion does not cover the “other information”; and
4) A description of the auditor’s responsibilities relating to reading, considering and reporting on the “other information”.

While this provides additional transparency, auditors are now in a vulnerable position and may feel the need to take precautions in how they translate their responsibilities in the audit report. As a result, this puts more onus on auditors to ensure they have read and considered the “other information”.

> *An audit opinion will take more time to conduct and there will be more fees required for that, there’s more work that’s done… [Up to now we] may notify things to the directors but now if we’re putting it in a public document to the shareholders, more thought will have to go in there*
>
> *[I8].*

However, auditors are already facing challenges with the reporting requirements in the current standard:

> *I worry sometimes about what people think we’re signing-off on and we get into debates with our clients about the wording of our report … [and] what words we use to tell people what we’ve done and what we haven’t done. It’s very complicated*
>
> *[I9].*

It is perhaps best, in the public’s interest, to communicate the roles that management and auditors have with respect to “other information”. The public’s interest would be served by expanding the requirements of both the management’s and the auditor’s responsibilities sections of the audit report to explain their respective responsibilities for the “other information". The description should clearly indicate the primary purpose of the procedures carried out by the auditor (i.e., credibility of the financial statements and auditor's report). Furthermore, the auditor's report could also include a description of management's responsibilities with respect to the preparation and presentation of the other information. These changes would enable users of the financial statements to put the auditor's and management's respective duties over "other information" into perspective. At present, there is a lack of a management framework that sets out management's responsibilities over "other information".

In summary, some aspects of ISA 720 are already seen as challenging for auditors in practice. After analysing the interview findings, it is evident that ISA 720 (revised) will lead to even more complications in practice. This finding suggests that, while the revision of ISA 720 was to align auditors' responsibilities in regard to the "other information" with users' expectations, it appears that it is not practical for auditors to "audit" the "other information". Thus, ISA 720 (revised) seems to be more of a drawback than beneficial for auditors.

4.2.1.8 Integrated Reporting

IR is a relatively new concept as it was established by the IIRC in 2011. Currently, the standard, both current and revised versions, do not have any references to IR. When questioning the interviewees about IR, the general view upheld was uncertainty and the reliance on experts may rise as IR encompasses sustainability aspects which auditors do not have the necessary expertise to pass judgement:

> *I'm not sure where [IR is] going to go, we might, as auditors, need to start bringing in experts from other fields to make sure we can confirm the other parts of the ["other information"] is [correct]and accurate*
>
> *[I6].*

Furthermore, for auditors to provide assurance on IR is dependent on the market and whether there is a demand for it; it is not prominent in New Zealand:

> *[In an] integrated report… companies are trying… [to] use their financial statements to convey more information and it can be certified. [H]owever, it's not compulsory at the moment… so it's got to be market driven as to what the market wants to see*
>
> *[I8].*

The next section discusses the implications of the above findings for the audit expectation gap.

4.3 Implications on the audit expectation gap

As mentioned in Chapter 2, due to the scope of this study, this study focuses on the performance gap (see section 2.3.1.2). As the study did not elicit the views of regulators or users, thus, not all aspects of the expectation gap can be assessed.

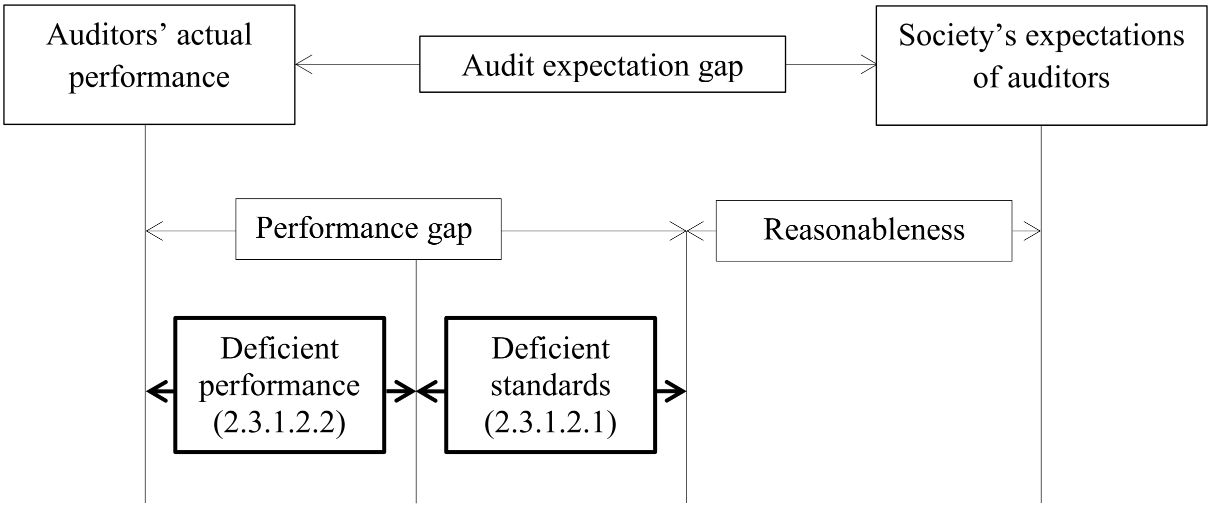

Figure 3: Components of the performance gap (adapted from Porter, 1993)

All interviewees were well aware and conscious of the audit expectation gap in performing their duties. However, interviewees' perceptions of users' expectations regarding their duties with regard to "other information" varied. One interviewee's perception was:

> *They think we [auditors] look at every single dollar and cent in a set of financial statements and they don't appreciate what materiality means and statistical sampling…there is a real expectations gap in terms of what we are doing versus what the public think we are doing*
>
> *[I1]*.

In stark contrast, another interviewee's perception was:

> *I suspect they think you've done nothing*
>
> *[I4]*.

The above interview finding provides evidence of auditors' awareness of the audit expectation gap issue. In particular, they allude to the "reasonableness gap" – a gap between society's expectations of auditors and what auditors can reasonably be expected to achieve (Porter, 1993).

4.3.1 Auditors role and the audit expectation gap

As noted above, actual practices go beyond what the current ISA 720 requires them to (see section 5.1.2). An interviewee explains the expectations from management:

> *The expectations of the board are probably more on us these days and I quite often get this, "I've assumed you guys have read the full document"... from the directors... that's probably an expectation gap in terms of what they expect us to be doing versus what we're legally bound to do*
>
> *[I1]*.

Another interviewee felt the same expectation:

> *What you're required to do is read the "other information". Some clients may get you to check all [of the annual report] for them but your only obligation is to read it and to check whether there are any material inconsistencies with [audited] financial information*
>
> *[I4]*.

Interestingly, the above interview findings and sections 4.11 and 4.1.2 show that auditors have been exceeding the requirements of ISA 720 and carry out duties above the requirement that's reasonably expected of auditors on a cost-benefit basis. For example, auditors are not required by ISA 720 to check the entire annual report but management perceive this to be a reasonable duty for auditors on a cost-benefit basis (Porter, 1993).

The change in ISA 720 objective puts a focus on inconsistencies with the *auditor's understanding of the entity and its environment*. Even prior to the revision of ISA 720, interview findings show auditors considered whether a material inconsistency exists with their understanding of the entity (see section 5.2.1.4). This is evidence that audit standards are lagging in the auditing profession identifying and responding to public expectations (Humphrey, 1992). The above analysis provides substantial evidence that implicates the standard setters as having contributed to a widening of the audit expectation gap, in particular the "deficient standards" component identified and defined by Porter (1993). This also suggests that principles-based standards may be more prone to inconsistent applications in practice compared with a prescriptive approach as it involves judgement.

In 2008/9, AG-4 underwent a revision (to AG-4 (revised)) to better reflect the increased interest in the public sector in improving the quality of external service performance reports to reflect the management of performance and actual achievements by the entity being audited (OAG, 2010):

[T]he Auditor General … was concerned to see that performance reporting and the audit of performance reporting really hadn't kept pace with change, so she had a big drive to bring reporting in the sector up to a higher level and to make sure that we applied similar principles in relation to performance reporting as we did with financials

[I2].

This shows that the Auditor-General was aware of the changing reporting environment in the public sector as the standard needed to be revised to better reflect the change. In addition, AG-4 was revised and implemented faster than ISA 720 (revised). Thus, the private sector is lagging more than the public sector in responding to public expectations (Humphrey, 1992).

In summary, auditors are aware of their duties and responsibilities under ISA 720, and perceive that they are doing well beyond what ISA 720 requires them to. Thus, research question one confirms the existence of deficient standards.

4.3.2 Impact RQ2 on the audit expectation gap

ISA 720 lacks a definitive framework for auditors to perform work on "other information". This leads to difficulties when the auditor needs to consider the consistency between "other information", the financial statements, and the auditor's knowledge obtained during the course of the audit. In addition, any indication of judgement being required in ISA 720 suggests that, in practice, there will be some difference between individual auditors (although not necessarily systematically between firms). The revised standard introduces significant judgement around what auditors might be reasonably expected to know (arising from the audit) and introduces subjectivity around the level of precision with which that knowledge is to be applied. Furthermore, this can be attributed to "deficient performance" component of the performance gap:

I read a lot of annual reports by various firms and … if we'd been reading that, we may have made some suggestions around the way they've worded things. So I certainly see some items out there which I wouldn't want to see in an annual report

[I1].

Another interviewee was aware of the subjectivity from one auditor to another:

[It's a matter of] my professional judgement versus another auditors' professional judgement versus an auditor at another firm's professional judgement

[I9].

Another interviewee raised the subjectivity issue with ISA 720:

... because you look at the word "material inconsistencies", "misstatement of fact", [you ask yourself at] "what point is it a misstatement of fact [that is] going to undermine the credibility [of the financial statements?"... there is a lot of judgement around its interpretation ...

[I4].

A reason for this inconsistency in practice may be attributed to the ambiguity in the standard and as a result, auditors are unable to fulfil the role and responsibilities expected by the public (Haniffa and Hudaib, 2007). Thereby, ambiguity in audit pronouncements is a cause of the "performance gap" (Haniffa and Hudaib, 2007). To emphasise the ambiguity of the standard, there are mixed views as to the clarity of ISA 720:

[It is a] short, brief, concise, [and a] clear standard

[I5].

In stark contrast:

I don't think it's that clear at the moment ... while it might, on the face of it seem clear, I don't think there's actual clarity around what we are required to sign-off on and what words we are required to include in our opinion...

[I7].

In summary, the interview findings provided notable evidence of the subjectivity and ambiguity of ISA 720 (revised) for practice. There is subjectivity within the current ISA 720 but is to a lesser extent. Research question two confirms the existence of deficient performance.

4.4 Summary

As shown in this chapter, all interviewees understood the impact the "other information" has on the audited financial statements and thus, they assume responsibility for considering the "other information". The interviewees also perceive their roles with respect to the "other information" as being, to some extent, beyond what was required by ISA 720. Furthermore, interviewees identified their primary role as being to ensure the "other information" does not undermine the credibility of the audited financial statements.

The revision of ISA 720 can be explained as the auditing profession trying to keep pace with users' expectations and the constantly changing reporting environment. The research evidence presented in this chapter highlights the standard's inherent ambiguity, subjectivity, inconsistencies, and deficiencies. This is due to the nature of the "other information" and the complexities that are associated with them which makes it difficult for auditors to assume responsibilities concerning the "other information. As a result, the shortcomings of ISA 720 (revised) contribute to the existence of the "performance gap", and specifically to both the deficient performance and deficient standards components.

The next chapter discusses the findings in this chapter in relation to the knowledge gaps identified in Chapter 2, and the interview findings on the theoretical and practical implications.

Chapter 5 – Discussion

Chapter 4 presented the findings gathered from interviews. This chapter will discuss the findings with respect to current literature, and identifies theoretical and practical implications.

5.1 Current literature

The purpose for the revision of ISA 720 was to "serve the public interest" (IAASB, 2015) and the accounting profession has a stated obligation to serve the public interest (ICANZ, 2003). To test this, van Peursem et al., (2005) examined the "Going Concern" audit standard and was expecting to see if their "expanded" obligation had an impact on practice. Contrary to their expectations, they found that the audit standard did not convey a forceful mandate on the auditor. Thus, indicating that "expanded" standards "give the appearance of improving profession benchmarks by virtue of greater volume, a volume not necessarily commensurate with a greater quality or a more forceful mandate" (p. 128). This is confirmed with the revision of ISA 720 as the number of pages went from 10 to 102 and the application and other explanatory material in particular, went from 2 to 90 pages. The public interest is for auditors to provide assurance on the "other information". It is seen in Chapter 2, coupled with the interview findings, that only limited changes were made, which may be inadequate to "serve the public interest" (IAASB, 2015).

There are commentators who see the promulgating of auditing standards as a means of self-regulating professional body members in order to serve the public interest (Baker, 2004; Carmichael, 1995; Sikka, Willmott, & Lowe, 1989; Willmott, 1986). However, some have seen the accountancy bodies unable to serve the public interest and protect public confidence, as auditing standard-setters are thought to be acting in the interest of the accounting profession, rather than the public (McEnroe & Martens, 1998; Pong & Whittington, 1994; Sikka et al., 1989). In addition, Sikka (2002) expressed that the audit standard-setters seem to not owe a duty of care to any stakeholder, despite the fact that they are meant to serve the public interest. The interview findings reveal that auditors are currently doing more than what is required by ISA 720 (see section 4.2.1.4) by considering whether a material inconsistency exists between the "other information" and the auditor's knowledge obtained in the audit (see ISA 720 (revised), paragraph 11(b)). The findings pointed out that ISA 720 (revised) was not changing what auditors do in practice, that the standards are just articulating existing practices (Tricker, 1980).

One of the IAASB's goals in the revising of ISA 720 was to increase the value of the audit, without changing its scope. However, this study saw an increase in the scope within ISA 720, from documents "containing" the audited financial statements to those "accompanying" the statements. In parallel, work effort will also increase as auditors must remain alert for indications that the "other information" may appear to be materially misstated as required by ISA 720 (revised). This will contribute to the work effort required by the auditor to discuss with management as to which documents comprises the annual report.

"Inconsistency" is defined by the ISA 720 as "other information" which contradicts the information contained in audited financial statements (see paragraph 5(b)). ISA 720 (revised) extends this definition to "include information that is incorrect, unreasonable or inappropriate; or is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed in the "other information" (see exposure draft on the revised ISA 720, paragraph 9(a)). The inclusion of these concepts arguably expands the definition and interpretation of the term "inconsistency" well beyond the meaning generally accepted by most people and has strayed far from the current ISA 720's meaning. These items may be difficult for practitioners to identify as this requires a high level of professional judgement. The interview findings emphasised the importance of having expertise, and notes that auditors are appointed to clients on the basis of their expertise. Thus, having expertise allows auditors to assess the concept of omission as materiality/disclosure judgements are affected by experience (Messier, 1983).

Furthermore, this new definition of "inconsistency" implies that the auditor should assess the "completeness" of the "other information" which conveys the idea that the auditor is required to evaluate assertions in the "other information" that could be partially or completely unrelated to the financial statements. Depending on the nature of the "other information", the auditor's understanding of it, and what it might take for it to be considered "complete", adds another layer of complexity and subjectivity to the practicality of the standard. Consequently, the risk of inconsistency in practice leads to questions over the work effort and conclusions reached by different auditors. In addition, this confirms Haniffa and Hudaib's (2007) notion of a performance gap arising from auditors being unable to fulfil their roles and responsibilities due to the ambiguity of the standard.

Prior research highlighted that little is known about (if at all) auditors review graphs as part of their review of the "other information (Clatworthy & Jones, 2006). This study reveals that auditors review graphs by going to the original source of data (e.g., spreadsheets) to verify the completeness and validity of the data with the financial statements to ensure a true and fair presentation. In some instances, auditors have found errors whereby management have overlooked rows or columns. This confirms "selectivity" with graphs and how they can be manipulated to portray favourable results (Jones, 2011; Beattie and Jones, 1997). This issue will continue to be exacerbated due to the development of "streamlining" which encourages the use of visuals (see section 4.2.3).

Previous research noted potential problems with IFR including, importantly, information quality (Jones & Xiao, 2004). This study confirms this issue, as auditors expressed their concerns over the lack of control and monitoring they have concerning web documents. An interviewee stated that once the audited financial statements are uploaded, they have no control over them. Currently, ISA 720 excludes web documents from being reviewed by the auditor, but as a recalibration of the standard, web documents may now fall within the scope of the standard, as the annual report may be made available to users electronically through the entity's website (see ISA 720 (revised), paragraph A4) and electronic information to be considered may accompany the financial statements. ISA 720 (revised) only acknowledges the Internet as a distribution mechanism and web documents. However, its overall stance remains unchanged and the IAASB has taken a cautious attitude concerning web documents. This confirms Fisher and Naylor's (2016) suggestion of an unmet demand for web documents to be audited.

Two important findings relating to the challenges auditors are facing when considering the "other information" are the timing of the "other information" and how auditors respond when material inconsistencies are not identified, yet the auditor disagrees with some aspect of the message such as its tone. "Other information" is not available until the late stages of the audit. If auditors are expected to do more work concerning the "other information", due to the increase in scope and work effort required by the revised standard, "other information" will need to be made available to audit earlier in the audit. The interview findings express this concern as auditors need adequate time to review and consider the "other information". If the "other information is made available after the issue of the audit report, the tolerance level for material inconsistencies will be higher (OAG, 2013), thus, the likelihood of fraud is higher (Brazel et al., 2009). This is clearly not in the interest of users.

The second concerns difficulties the auditors face in responding when no material inconsistencies are identified. For example, when the numbers in the "other information" are able to be reconciled back to the audited financial statements; yet the auditor disagrees with the tone of the message. ISA 720 (both current and revised versions) does not provide guidance when this situation arises. Thus, an ill-intentioned message may get published in the annual report which may undermine the credibility of the audited financial statements. As ISA 720 does not provide guidance one interviewee sought guidance from regulatory publications or standards which could then be used to get management to reconsider the message.

The degree of subjectivity within ISA 720 has been identified as a concern by the interview findings and the prior literature. Emerging types of reporting, such as IR, will exacerbate many of these problems. For instance, the scope of information, work effort required and the definition of "material inconsistencies", are all associated with a high level of ambiguity in relation to IR (Humphrey, O'Dwyer, & Unerman, 2014). Power (1997) notes that auditors are not expected to have the level of detailed knowledge and experience of experts, although the auditor is obliged to form an opinion on the need for specialist knowledge and on the expert's competence and objectivity. Thus, the findings raise the question of whether auditors will have a greater reliance on the work of experts.

5.2 Theoretical implications

Regarding theoretical implications, this research suggests the existence of the performance gap and its two components. It is clear from this research that ISA 720 is ambiguous and is subjective as to the scope, definition, and the extent of attentiveness required of the auditor. Due to the ambiguity within ISA 720, auditors are unable to fulfil their role well, representing a deficiency of the standard. Prior literature has already confirmed the existence of deficient standards in relation to ISA 720 at a high level (Porter et al., 2012). In addition, research question one confirms the existence of deficient standards as auditors are doing more than what they are required to in certain areas. This suggests that having auditors review "other information" is seen as "reasonable" on a cost-benefit basis (Porter et al., 2012).

Research evidence also confirms deficient performance that is, performance below professional standards (Akinbuli, 2010), due to the degree of subjectivity and within the standard. The finding is consistent with Clatworthy and Jones (2006) and Fisher and Naylor

(2016). Forexample, an interviewee noted that while reading an annual report which had been audited by another firm, the interviewee saw items he would not have included. In addition, one interviewee stated that the ISA 720 was clear and concise while in stark contrast, another interviewee stated that the standard was not clear.

As discussed in Fisher and Naylor (2016), many recurring issues initially appear in the expectation gap as part of the "reasonableness gap", then gradually shifting into the "performance gap" (deficient standards and deficient performance). The development of ISA 720 to ISA 720 (revised) confirms this movement. The reasonableness gap is alluded to in Bedard et al., (2012) where investors, both professional and non-professional, thought the "other information" was audited when it was in fact not. Consequently, deficient standards arise as society perceives auditors to be able to do more in terms of evaluating the "other information" on a cost-benefit basis. The current ISA 720 is seen to be subjective (Clatworthy & Jones, 2006; Fisher & Naylor, 2016) which leads to inconsistent practices, thus confirming deficient performance.

As a result of ISA 720 (revised), it is seen to be even more subjective as auditors will be required to identify material inconsistencies not only, between the "other information" and audited financial statements, but also with their knowledge obtained in the audit. Moreover, the revision confirms that auditing standards are only articulations of current practices (Humphrey & Moizer, 1990) as auditors are currently doing a great deal beyond what is required.

5.3 Practical implications

The cumulative changes made to extant ISA 720 may increase the risk of unintended consequences. From the findings and analysis of the standard, some liability-related risks are identified below.

First, ISA 720 (revised) imposes uncertain and ambiguous obligations on auditors with respect to information accompanying the financial statements and because the auditor's obligations are not clearly defined, users of the financial statements may not understand the limited scope and extent of the auditor's role. Thereby, it may lead to exaggerated expectations of the auditor's responsibilities and confusion over the company's responsibility for its own financial statements and other disclosures. Such uncertainty not only undermines the clarity of the existing corporate reporting model — in which companies are responsible for their own disclosures — but also risks imposing incremental liability on auditors.

Second, the above risk is exacerbated by the fact that the extant ISA 720 reflects a relatively more objective standard (i.e., is there anything in the company's disclosure that is inconsistent with the financial statements?), whereas the revised ISA 720 is more subjective (i.e., does the auditor believe or is aware of anything that is gathered from the audit that might be in tension with the company's disclosures?). This may give rise to unwarranted attempts to hold the auditor liable for issues contained in the "other information".

Third, with the incorporation of "omissions" into the concept of materiality, auditors may not be best placed to identify these omissions or have the extent of knowledge to do so. However, by virtue of the standard, auditors could potentially be held responsible for subsequent omissions not detected in "other information".

Fourth, ISA 720 (revised) includes a new clause with regard to documentation. The problematic nature of this requirement for auditors was confirmed in the interview findings. ISA 720 (revised) states that the auditor shall document "the procedures performed under this ISA" (see paragraph 25). The work performed is to "read and consider" (see paragraph 14) and documentation requirements must demonstrate "consideration". However, what constitutes suitable documentation of "consideration" is again problematic. These requirements will place onerous obligations on the auditor, especially where an auditor's expert is needed to work with the financial audit team to confirm there is no material inconsistency in the "other information" or "misstatement" in the financial report.

5.4 Summary

In summary, this chapter discusses the interview findings presented in Chapter 4. The findings aim to fill the gaps in knowledge that was identified in Chapter 2, and discussed implications on findings to theory and practice.

Chapter 6 – Conclusion

In a review of current literature, gaps in knowledge relating to auditors' responsibilities for "other information" were identified (see Chapter 2). Based on these gaps, this study aimed to investigate how auditors audit the "other information" during the audit of financial statements. This research aimed to fill the knowledge gaps and, in addition, contribute to the relevant current literature, theory, policy and practice. This chapter is organised into three sections: 1) summary of the research questions; 2) contributions to literature; and 3) recommended future research.

6.1 Summary of research questions

6.1.1 Research question one

What do auditors perceive to be their role and responsibility for "other information" while auditing financial statements?

From the interview findings, it found that auditors perceive their role as doing more than what the ISA 720 requires. All interviewees identified their primary role as ensuring the credibility of the audited financial statements. Thus, they recognise the importance of the "other information" and assumed responsibility to identify, if any, material inconsistencies exists between the "other information" and audited financial statements.

While the interviewees stated that ISA 720 ensures that they read the "other information, several interviewees commented on the positive implications of ISA 720 on management. For example, since ISA 720 requires auditors to read and consider the "other information", it is a signal given to management or those charged with governance that such information is important to report users. Thus, they have seen an improvement in the quality of "other information" as it is now clearer that it is being scrutinised.

6.1.2 Research question two

How does ISA 720 (both the current and revised versions) affect practice and what challenges do auditors face in implementing its requirements?

Currently, ISA 720 is found to be subjective (Clatworthy & Jones, 2006; Fisher & Naylor, 2016). Through the revision of the standard, ISA 720 (revised) appears to be more subjective than its predecessor and the interview findings and a review of ISA 720 confirms this. The increase in subjectivity can be attributed to four main changes: 1) objective; 2) scope; 3) definitions; and 4) work effort (see Appendix 3 for summary of changes).

1. Objective – ISA 720 (revised) makes further references and requires auditors to consider whether a material inconsistency exists between the "other information" and audited financial statements and in additional to the auditor's knowledge obtained in the audit;
2. Scope – scope has expanded from the "other information" in documents "*containing*" the audited financial statements to the "other information" that "*accompanies*" the statements;
3. Definitions – "inconsistencies" has extended to include information that is incorrect, unreasonable, inappropriate, or is presented in a way that omits or obscures information; and
4. Work effort – requires auditors to determine which documents comprise the annual report and remain alert for indications that the "other information" may appear to be materially misstated.

From the interview findings, three challenging areas were highlighted in relation to ISA 720: 1) timing of the "other information"; 2) responding when no material inconsistencies are identified but the auditor still has concerns; and 3) web documents.

1. Timing – it is important that auditors receive "other information" in a timely manner to ensure adequate audit work is completed as the "other information" is typically received in the late stages of an audit. This will have to change if auditors are now required to do more work on it;
2. Responding when no material inconsistencies are identified– insufficient guidelines are provided when auditors are in the scenario where the numbers are able to be reconciled from the "other information" back to the audited financial statements but the auditor disagrees with the "tone" of the message;
3. Web documents – they are difficult to monitor once they have been uploaded onto the entity's website. Any supplementary information that is uploaded may have the note of "other information and have impact on the audited financial statements. However, auditors are not responsible for web documents unless they comprise the annual report.

6.1.3 Research question three

What are the implications of the findings for the audit expectation gap?

Research question one confirms the existence of deficient standards – the difference between what auditors are reasonably expected to do by society and what the standards prescribe them to do (Porter, 1993). The interview findings confirm deficient standards as auditors felt the expectation from management to review the entire annual report as management see that it is a reasonable task as auditors have audited the financial statements and should be able to generate an understanding of the entity. In addition, this expectation requires auditors to do more than what is prescribed in ISA 720, thus, further contributing to the deficient standards.

Research question two confirms deficient performance – the failure of auditors to perform up to the reasonable responsibilities expected by society (Porter, 1993). Due to the subjectivity within ISA 720, individual auditors will have varying interpretations of the standard as to what is required, the extent and attentiveness required of them. This will lead to inconsistent practices amongst auditors (although not necessarily systematically between firms) and the perception that auditors are unable to meet society's expectations.

6.2 Contributions to literature

The contributions of this study can be attributed to current literature and to qualitative audit research and is discussed below:

6.2.1 Contributions to current literature

The current literature is scant of the topic on how auditors consider the "other information" during the audit of financial statements. Clatworthy and Jones (2006) noted that while the audit firm they contacted, read the "other information" to ensure the numbers were reconcilable with the audited financial statements, the firm had no specific guidance on how auditors' should consider narratives, potentially creating much subjectivity [see their footnote 2]. Furthermore, the views from senior auditors have never been elicited on their roles and responsibilities pertaining to the "other information". Hence, little was known about their perceptions of this aspect of current audit practice and the challenges it presents. This research bridges the gap in knowledge previously identified in literature and enhances our understanding of a topic that has been under reserach.

In particular, this study has contributed to fill the knowledge gaps identified in Chapter 2 and is presented in Chapter 5 and is briefly summarised below. Regarding the “other information”, such as the Chairman’s statement and MD&A, auditors review this “other information” to ensure it is consistent with the audited financial statements. In addition, if management have quoted figures, they must be reconcilable back to the audited financial statements. Clatworthy and Jones (2006) notes that it is not known how, or if, graphs are considered by auditors in the review of the “other information”. Interview findings reveal that auditors reconcile the source of data (e.g., spreadsheets) to the annual report to ensure it is consistent. However, auditors do not have the authority to tell management how to present graphs as long as the numbers are able to be reconciled back to the audited financial statements. Thus, graphs are still subject to potential manipulation through measurement distortion and presentational enhancement (Jones, 2011).

Little has changed in regard to auditor’s responsibilities for web documents. ISA 720 (revised) acknowledges the web as a distribution mechanism or annual reports but does not consider web documents as the “other information”. Thus, it is not subject to a review by an auditor unless they are uploaded with the audited financial statements. Interview findings reveal the difficulties in reviewing web documents, and hence, the cautious approach taken by the profession. Once the audited financial statement have been uploaded, supplementary information may be uploaded and it is difficult for auditors to monitor this information which may have a potential impact on the audited statements. It is seen as a difficult and grey area for auditors.

With respect to IR, it is likely that IR will exacerbate many of the issues identified in this research. IR will blur the distinction between the “other information” and audited financial statements as it is integrated as part of the IR framework. Thus, the auditors interviewed are uncertain of the direction IR will being. However, IR has yet to be widely adopted in New Zealand and assurance on IR has to be market driven in order for auditors to assume responsibility for them. The possibility of a greater reliance on experts may arise to provide an opinion outside an auditor’s expertise.

This research has confirmed the performance gap – the difference between that is reasonably expected by society, and what is perceived to be achieved (Porter, 1993). Hanniffa and Hudaib (2007), states that when auditors are unable to meet the roles and responsibilities expected by society, it is often due to the ambiguity of standards. The review of ISA 720, coupled with interview findings, confirms the ambiguity and subjectivity within the standard. Thus, it gives rise to the performance gap portion of the audit expectation gap. Furthermore, its two components have been confirmed (see 6.1.3).

6.2.2 Contributions to qualitative audit research

Chapters 1 and 2 presented the rationale for conducting this research. Beattie et al., (2001) and Power (2003) have criticised the current approach to audit research which is largely quantitative-based and focuses on testing the validity of hypotheses. For this reason, research is strongly encouraged in a way to better understand the realities of the auditing profession in its broader social, organisational and regulatory contexts (Humphrey, 2008).

The purpose of this research was to better understand the relatively unknown experiences of auditors' current practice in considering "other information" during the audit engagement. Auditors were asked for their views and their experiences of current practice, making this study the type of research which many authors strongly advocate as being of interest to accounting practitioners, shareholders and stake holders (Covaleski et al., Gendron, 2000; Humphrey, 2008). This study contributes to the scarce quantity of qualitative audit research by eliciting the views and perceptions of current practicing auditors.

6.3 Contributions to theory

A significant contribution derived at by this study is its identification of how issues raised in the interviews impact on the "performance gap" and its two components: deficient standards and deficient performance defined by (Porter, 1993). By utilising the "performance gap" as a framework for this study, it allows us to identify specific responsibilities that contribute to deficient standards and deficient performance and thus, provide a basis for recommendations for addressing the issues contributing to the gap. Furthermore, it confirms its usefulness as an analytical framework (Fisher & Naylor, 2016).

6.4 Contributions to practice and policy

6.4.1 Contributions to practice

The interview findings from this study focus the attention on current practices in the audit of the "other information". An important concern arising from the review of ISA 720 is the subjectivity contained within the standard. The interview findings confirm this subjectivity which may be the most fundamental factor impairing the auditor's ability to effectively consider “other information”. The conclusion reached was that the revised standard may, as a result of ambiguity, expose auditors to potential liability.

The interview findings provide evidence concerning current practice and requirements regarding auditors’ consideration of “other information”. The results shed light onto auditors’ practices. If auditors are perceived as being under-responsive towards “other information” the profession may potentially face criticisms and litigation.

6.4.2 Contributions to policy

Utilising the “performance gap” as an analytical framework, allowed us to identify specific responsibilities and provide a basis for recommendations. Deficient standards may be addressed by introducing new auditing requirements to embrace the responsibilities that are cost-effective for auditors to perform to assist in narrowing this gap (Porter, 2004). In relation to ISA 720, auditors are currently doing more than what is required in certain areas, which suggests that these areas should be codified into standards. However, as mentioned in Chapter 5, the articulation of existing practices has drawn criticisms to the profession (Humphrey & Moizer, 1990).

The deficient performance may be narrowed through the introduction of more guidance in ISA 720 to provide a basis of comparison between auditors and the “other information”. This will reduce the level of current subjectivity within ISA 720. In addition, Porter (2004) suggests more rigorous monitoring of auditors’ performance, improved quality controls within audit firms, and enhanced education for all auditors. This should, in time, result in improved actual and perceived performance by auditors (Porter, 2004) thereby, narrowing the deficient performance portion of the performance gap.

6.5 Recommendations for future research

Due to the scope of this study, the views of senior auditors and their perception of the “other information” were elicited. In conducting the interviews, several interviewees noted the impact regulatory bodies such as the FMA, had on management in preparing the “other information”. An extension of this study could elicit views of regulators in relation to their expectations and importance on the “other information”.

There is scant literature on how auditors audit the “other information” during the audit of the financial statements. This then makes this research an exploratory study and suggests this study could be replicated by others to determine whether the conclusions derived in this study are generalisable.

An area of difficulty in the interview findings was the lack of guidance given to auditors in the absence of material inconsistencies between the “other information” and the audited financial statements. Auditors had to refer to standards and guidelines outside the ISA to influence management. Thus, future research could therefore investigate in more detail how auditors respond to disagreements with management regarding the “tone” of the message and assess the responsiveness of management such as, strategy.

6.6 Concluding remarks

The current literature with the research findings, addressed a gap in knowledge relating to auditor’s role in auditing “other information” in annual reports. It has made an important contribution in examining the practices of auditors in New Zealand by eliciting their views on the issues and concerns they face in current practice. The findings reveal interesting aspects of practice in the audit with regard to “other information”, as well as offering reflections on the significance of ISA 720, both current and revised versions, for the audit profession in New Zealand. The findings raise issues regarding an auditor’s roles and responsibilities with respect to “other information” and the ongoing challenges they face in balancing the expectations of society — as reflected by standard setters — and the practicalities of working at the margins of their professional knowledge and judgement.

References

Abrahamson, E., & Amir, E. (1996). The information content of the president's letter to shareholders. Journal of Business Finance & Accounting, 23(8), 1157-1182.

Aerts, W. (1994). On the use of accounting logic as an explanatory category in narrative accounting disclosures. Accounting, Organizations and Society, 19(4-5), 337-353.

Aerts, W. (2005). Picking up the pieces: impression management in the retrospective attributional framing of accounting outcomes.Accounting, organizations and society, 30(6), 493-517.

Akinbuli, S. F. (2010). „The Effect of Audit Expectation Gap on the Work of Auditors, the Profession and Users of Financial Information‟.The Nigerian Accountant, 43(4), 37-47.

Alvesson, M. (2003). Beyond neopositivists, romantics, and localists: A reflexive approach to interviews in organizational research. Academy of management review, 28(1), 13-33.

American Institute of Certified Public Accountants. (2015). AU-C Section 720 Other Information in Documents Containing Audited Financial Statements. Retrieved from http://www.aicpa.org/research/standards/auditattest/downloadabledocuments/au-c-00720.pdf

Archambault, J. L., & Gibson, K. M. (1999). Audited financial statements and the World Wide Web. The CPA Journal, 69(11), 52.

Arnold, V., Bedard, J. C., Phillips, J., & Sutton, S. G. (2011). Enhancing the MD&A for Professional and Nonprofessional Investors. Working paper, University of Central Florida.

Arunachalam, V., Pei, B. K., & Steinbart, P. J. (2002). Impression management with graphs: Effects on choices. Journal of Information Systems, 16(2), 183-202

Baker, C. R. (2004, July). What do we mean by accounting for the public interest. In 4th Asia Pacific Interdisciplinary Research in Accounting Conference (4-6 July), Singapore.

Bartlett, S. A., & Chandler, R. A. (1997). The corporate report and the private shareholder: Lee and Tweedie twenty years on. The British Accounting Review, 29(3), 245-261.

Beattie, V., & Jones, M. J. (1992). The use and abuse of graphs in annual reports: theoretical framework and empirical study. Accounting and Business Research, 22(88), 291-303.

Beattie, V., & Jones, M. J. (1997). A Comparitive Study of the Use of Financial Graphs in the Corporate Annual Reports of Major US and UK Companies. Journal of International Financial Management & Accounting, 8(1), 33-68.

Beattie, V., & Jones, M. J. (2000). Impression management: the case of inter-country financial graphs. Journal of International Accounting, Auditing and Taxation, 9(2), 159-183.

Beattie, V., & Jones, M. J. (2002). Measurement distortion of graphs in corporate reports: an experimental study. Accounting, Auditing & Accountability Journal, 15(4), 546-564.

Beattie, V., & Jones, M. J. (2008). Corporate reporting using graphs: A review and synthesis. Journal of Accounting Literature, 27, 71.

Beattie, V., Fearnley, S., & Brandt, R. (2001).Behind closed doors. New York, NY: Palgrave.

Beattie, V., McInnes, B., & Fearnley, S. (2004). Through the eyes of management: Narrative reporting across three sectors. Final Report. ICAEW Centre for Business Performance, London.

Bedard, J. C., Sutton, S. G., Arnold, V., & Phillips, J. R. (2012). Another piece of the "expectations gap": What do investors know about auditor involvement with information in the annual report?.Current Issues in Auditing, 6(1), A17-A30.

Bettman, J. R., & Weitz, B. A. (1983). Attributions in the board room: Causal reasoning in corporate annual reports. Administrative science quarterly, 165-183.

Beynon, M. J., Clatworthy, M. A., & Jones, M. J. (2004). The prediction of profitability using accounting narratives: a variable-precision rough set approach. Intelligent Systems in Accounting, Finance and Management,12(4), 227-242.

Bogdan, R., & Biklen, S. K. (1982). Qualitative research for education. Boston: Allyn & Bacon.

Botosan, C. A. (1997). Disclosure level and the cost of equity capital.Accounting review, 323-349.

Bouwman, M. (1982). The use of accounting information: Expert versus novice behavior. Decision making: An interdisciplinary inquiry, 134-167.

Brazel, J. F., Jones, K. L., & Zimbelman, M. F. (2009). Using nonfinancial measures to assess fraud risk. Journal of Accounting Research, 47(5), 1135-1166.

Bryan, S. H. (1997). Incremental information content of required disclosures contained in management discussion and analysis. Accounting Review, 285-301.

Bryman, A., & Bell, E. (2011). Business research methods. Oxford University Press, USA.

Busco, C., Frigo, M. L., Quattrone, P., & Riccaboni, A. (2013). Integrated reporting.Concepts and Cases that Redefine Corporate.

Canadian Institute of Chartered Accountants. (1999). The impact of technology on financial and business reporting. Canadian Institute of Chartered Accountants.

Canniffe, M. (2003). Annual reports. Dublin: Institute of Chartered Accountants In Ireland.

Carmichael, D. R. (1995). The Audit Agenda.Accounting Horizons, 9(4), 143.

Cassell, C., & Symon, G. (1994). Qualitative research in work contexts. Qualitative methods in organizational research: A practical guide, 1-13.

Clarkson, P. M., Kao, J. L., & Richardson, G. D. (1999). Evidence that management discussion and analysis (MD&A) is a part of a firm's overall disclosure package. Contemporary accounting research, 16(1), 111-134.

Clatworthy, M. A., & Jones, M. J. (2006). Differential patterns of textual characteristics and company performance in the chairman's statement. Accounting, Auditing & Accountability Journal, 19(4), 493-511.

Clatworthy, M., & Jones, M. J. (2003). Financial reporting of good news and bad news: evidence from accounting narratives. Accounting and business research, 33(3), 171-185.

Cole, C. J., & Jones, C. L. (2005). Management discussion and analysis: A review and implications for future research. Journal of Accounting Literature, 24, 135.

Deegan, C., & Gordon, B. (1996). A study of the environmental disclosure practices of Australian corporations. Accounting and business research,26(3), 187-199.

Dolan, A., & Ayland, C. (2001). Analysis on trial.International Journal of Market Research, 43(4), 377.

Eccles, R. G., & Krzus, M. P. (2010). One report: Integrated reporting for a sustainable strategy. John Wiley & Sons.

Epstein, M. J., & Geiger, M. A. (1994). Investor views of audit assurance: Recent evidence of the e. Journal of Accountancy, 177(1), 60.

Epstein, M. J., & Palepu, K. G. (1999). What financial analysts want. Strategic Finance, 80(10), 48

Epstein, M. J., & Pava, M. L. (1995). Shareholders' perceptions on the usefulness of MD&As. Managerial Finance, 21(3), 68-83.

Ernst and Young. (2014). Short-termism in business: causes, mechanisms and consequences. Retrieved from http://www.ey.com/Publication/vwLUAssets/EY_Poland_Report/$FILE/Short-termism_raport_EY.pdf

Ernst and Young. (2014, December 19). Dialogue with the IAASB. Retrieved from http://www.ey.com/Publication/vwLUAssets/EY-Dialogue-with-the-IAASB-19-December-2014/$FILE/EY-Dialogue-with-the-IAASB-19-December-2014.pdf

External Reporting Board [XRB]. (2011, June). International Standard on Auditing (New Zealand) 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements (ISA (NZ) 720). Retrieved August 23, 2016, from https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Auditing_Standards/default.aspx

Fisher, R. T., & Naylor, S. T. (2016). Corporate reporting on the Internet and the expectations gap: new face of an old problem. Accounting and Business Research, 46(2), 196-220.

Fisher, R., Oyelere, P., & Laswad, F. (2004). Corporate reporting on the Internet: Audit issues and content analysis of practices. Managerial Auditing Journal, 19(3), 412-439.

Flint, D. (1988). Philosophy and principles of auditing: an introduction. Macmillan Education.

Gaa, J. C. (1991). The expectations game: regulation of auditors by government and the profession. Critical Perspectives on Accounting, 2(1), 83-107.

Gendron, Y. (2000). Openness to context-based research: the gulf between the claims and actions of Big Six firms in the USA. Accounting, Auditing & Accountability Journal, 13(2), 175-196.

Ghauri, P. N., & Grønhaug, K. (2005). Research methods in business studies: A practical guide. Pearson Education.

Gowthorpe, C., & Flynn, G. (1997). Reporting on the Web: The state of the art. Accountancy: International Edition, 120(1248), 58-59.

Gray, R., McPhail, K., Collison, D. J., French, J., & Stevenson, L. (2001). The professional accountancy bodies and the provision of education and training in relation to environmental issues. Institute of Chartered Accountants of Scotland.

Groves, R. J. (1994). Financial disclosure: When more is not better.Financial Executive, 10(3), 11-15.

Gulliford, J., Hussey, R., & Lymer, A. (1998). Corporate Communications: Financial Reporting on the Internet. Deloitte & Touche.

Haniffa, R., & Hudaib, M. (2007). Locating audit expectations gap within a cultural context: The case of Saudi Arabia. Journal of International Accounting, Auditing and Taxation, 16(2), 179-206.

Hanks, J., & Gardiner, L. (2012). Integrated reporting: lessons from the South African experience (No. 11052). The World Bank.

Hanks, J., & Gardiner, L. (2012). Integrated reporting: lessons from the South African experience (No. 11052). The World Bank.

Harte, G., Lewis, L., & Owen, D. (1991). Ethical investment and the corporate reporting function.Critical Perspectives on Accounting, 2(3), 227-253.

Hassink, H. F., Bollen, L. H., Meuwissen, R. H., & de Vries, M. J. (2009). Corporate fraud and the audit expectations gap: A study among business managers. Journal of International Accounting, Auditing and Taxation, 18(2), 85-100.

Hayes, T., & Mattimoe, R. (2004). To tape or not to tape: reflections on methods of data collection. THE REAL LIFE GUIDE TO ACCOUNTING RESEARCH, 359.

Henderson, D. (2004). The role of business in the modern world. London: Institute of Economic Affairs.

Higson, A. (2003). Corporate financial reporting: Theory and practice. Sage.

Hodge, F. D. (2001). Hyperlinking unaudited information to audited financial statements: Effects on investor judgments. The Accounting Review, 76(4), 675-691.

Holmes, N. (1984). Designer's guide to creating charts & diagrams. Watson-Guptill.

Hooks, J., Coy, D., & Davey, H. (2002). The information gap in annual reports. Accounting, Auditing & Accountability Journal, 15(4), 501-522.

Hopwood, A. (1996). Probing further into auditing and its consequences - introduction. Accounting Organizations and Society, 21(2-3), 217-218.

Horton, J., Macve, R., & Struyven, G. (2004). Qualitative research: experiences in using semi-structured interviews. The real life guide to accounting research, 339-357.

Huberman, A. M., & Miles, M. B. (1994). Data management and analysis methods.

Humphrey, C. (2008). Auditing research: A review across the disciplinary divide. Accounting, Auditing & Accountability Journal, 21(2), 170-203.

Humphrey, C., & Moizer, P. (1990). From techniques to ideologies: An alternative perspective on the audit function. Critical Perspectives on Accounting, 1(3), 217-238.

Humphrey, C., O'Dwyer, B., & Unerman, J. (2014). The Rise of Integrated Reporting: Understanding Attempts to Institutionalize a New Reporting Framework. Centre for Social & Environmental Accounting Research (CSEAR), St Andrews.

Institute of Chatered Accountants in England and Wales [ICAEW]. (2004). The Operating and Financial Review: Comments on the Draft Regulations. Technical Release 31/04. London: Institute of Chartered Accountants in England and Wales

Ingram, R. W., & Frazier, K. B. (1983). Narrative disclosures in annual reports. Journal of Business Research, 11(1), 49-60.

Institute of Chartered Accountants in England and Wales [ICAEW]. (2016, May 8). Enhanced business review. Retrieved from http://www.icaew.com/en/technical/legal-and-regulatory/company-law/enhanced-business-review

International Accounting Stanards Board [IASB]. (2006). Comment letters on the discussion paper: Management Commentary, at www.iasb.org.uk

International Accounting Standards Board [IASB]. (2015). At a glance: ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information. Retrieved from http://www.kacr.cz/file/2226/isa-720-revised-at-a-glance.pdf

International Auditing and Assurance Board [IAASB]. (2015, April). International Standard on Auditing (ISA) 720 (Revised), The Auditor's Responsibilities Relating to Other Information | IFAC. Retrieved August 23, 2016, from https://www.ifac.org/publications-resources/international-standard-auditing-isa-720-revised-auditor-s-responsibilities--0

International Auditing and Assurance Board [IAASB]. (2012). International Standard on Auditing (ISA) 720 (Revised) The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon Proposed Consequential and Conforming Amendments to Other ISAs. Retrieved from https://www.ifac.org/system/files/publications/files/ISA-720-The-Auditor%27s-Responsibilities-Relating-to-Other-Information-in-Documents.pdf

International Auditing and Assurance Standards Board [IAASB]. (2016). *Integrated Reporting Working Group - Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. Retrieved from https://www.ifac.org/system/files/publications/files/IAASB-Discussion-Paper-Integrated-Reporting_0.pdf

International Federation of Accountants [IFAC]. (2015, April 8). IAASB's Revised Standard ISA 720 Enhances Auditor Focus on Annual Reports in Light of Increased Investor Focus on Qualitative Disclosures. Retrieved from https://www.ifac.org/news-events/2015-04/iaasb-s-revised-standard-isa-720-enhances-auditor-focus-annual-reports-light-inc

Jennings, M., Kneer, D. C., & Reckers, P. J. (1993). The Significance of Audit Decision Aids and Precase Jurists' Attitudes on Perceptions of Audit Firm Culpability and Liability. Contemporary Accounting Research, 9(2), 489-507.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3(4), 305-360.

Jones, M. J. (2011). Creative accounting, fraud and international accounting scandals. John Wiley & Sons.

Jones, M. J., & Xiao, J. Z. (2004, September). Financial reporting on the Internet by 2010: a consensus view. In Accounting forum (Vol. 28, No. 3, pp. 237-263). Elsevier.

Knox, S., & Burkard, A. W. (2009). Qualitative research interviews. Psychotherapy Research,19(4-5), 566-575.

Lee, T. A., & Tweedie, D. P. (1976). The private shareholder: his sources of financial information and his understanding of reporting practices.Accounting and business research, 6(24), 304-314.

Lee., T. A. (1986). Company Auditing. Wokingham: Van Nostrand Reinhold (UK).

Libby, R., Nelson, M. W., & Hunton, J. E. (2006). Retracted: Recognition v. Disclosure, Auditor Tolerance for Misstatement, and the Reliability of Stock‐Compensation and Lease Information.Journal of Accounting Research, 44(3), 533-560.

Lincoln, Y. S., & Guba, E. G. (1985). Naturalistic inquiry (Vol. 75). Sage.

Maines, L. A., & McDaniel, L. S. (2000). Effects of comprehensive-income characteristics on nonprofessional investors' judgments: The role of financial-statement presentation format. The accounting review, 75(2), 179-207.

Manson, S., & Zaman, M. (1999, March). Lobbying the Auditing Practices Board: Analysis of responses to the expanded audit report. InAccounting Forum (Vol. 23, No. 1, pp. 11-34). Blackwell Publishers Ltd.

McEnroe, J. E., & Martens, S. C. (1998). An examination of the auditing standards promulgation process involving SAS No. 69.Journal of Accounting and Public Policy, 17(1), 1-26.

McEnroe, J. E., & Martens, S. C. (2001). Auditors' and investors' perceptions of the “expectation gap”. Accounting Horizons, 15(4), 345-358.

McKerchar, M. A. (2010). Design and conduct of research in tax, law and accounting. Sydney, N.S.W: Thomson Reuters/Lawbook Co.

Merkl-Davies, D. M., & Brennan, N. M. (2007). Discretionary disclosure strategies in corporate narratives: incremental information or impression management?. Journal of accounting literature, 27, 116-196.

Messier, W. F. (1983). The effect of experience and firm type on materiality/disclosure judgments.Journal of Accounting Research, 611-618.

Monroe, G. S., & Woodliff, D. R. (1994). An empirical investigation of the audit expectation gap: Australian evidence. Accounting & Finance,34(1), 47-74.

Nazri Fadzly, M., & Ahmad, Z. (2004). Audit expectation gap: The case of Malaysia.Managerial Auditing Journal, 19(7), 897-915.

New Zealand Institute of Chartered Accountants. (2010). International Standards on Auditing (ISA) Implementation in New Zealand. Retrieved from New Zealand Institute of Chartered Accountants website: file:///F:/ISA_Implementation_May2010.pdf

Paivio, A., & Begg, I. (1974). Pictures and words in visual search. Memory & Cognition, 2(3), 515-521.

Patton, M. Q. (1990). Qualitative evaluation and research methods . SAGE Publications, inc.

Patton, M. Q. (2002). Qualitative evaluation and research methods . SAGE Publications, inc.

Percy, J. P. (1999). Assurance Services—Visions for the Future. International Journal of Auditing,3(2), 81-87.

Polkinghorne, D. E. (1994). Reaction to special section on qualitative research in counseling process and outcome. Journal of Counseling Psychology, 41(4), 510.

Pong, C., & Whittington, G. (1994). The working of the auditing practices committee—three case studies. Accounting and business research,24(94), 157-175.

Porter, B. (1993). An empirical study of the audit expectation-performance gap. Accounting and business research, 24(93), 49-68.

Porter, B. A., & Gowthorpe, C. (2001, March). The audit expectation–performance gap: Some new evidence from the United Kingdom. In National Auditing Conference, Leicester. UK: University of Leicester.

Porter, B., & Gowthorpe, C. (2004). Audit expectation-performance gap in the United Kingdom in 1999 and comparison with the Gap in New Zealand in 1989 and in 1999. Institute of Chartered Accountants of Scotland.

Porter, B., Ó hÓgartaigh, C., & Baskerville, R. (2012). Audit Expectation-Performance Gap Revisited: Evidence from New Zealand and the United Kingdom. Part 1: The Gap in New Zealand and the United Kingdom in 2008. International Journal of Auditing, 16(2), 101-129.

Power, M. (1997). The audit society: Rituals of verification. OUP Oxford.

Power, M. K. (2003). Auditing and the production of legitimacy. Accounting, organizations and society, 28(4), 379-394.

Qu, S. Q., & Dumay, J. (2011). The qualitative research interview. Qualitative Research in Accounting & Management, 8(3), 238-264.

Rallis, S. F., & Rossman, G. B. (2012). Learning in the field: An introduction to qualitative research.

Richardson, A. J., & Dowling, J. B. (1986). An integrative theory of organizational legitimation.Scandinavian Journal of Management Studies,3(2), 91-109.

Rogers, R. K., & Grant, J. (1997). Content analysis of information cited in reports of sell-side financial analysts (digest summary). J Financ Statement Anal, 3(1), 17-30.

Rutherford, B. A. (2003). Obfuscation, textual complexity and the role of regulated narrative accounting disclosure in corporate governance.Journal of management and governance, 7(2), 187-210.

Salehi, M. (2011). Audit expectation gap: Concept, nature and trace. African Journal of Business Management, 5(21), 8376-8392.

Schwandt, T. A. (2001). Dictionary of qualitative research.

Securities Exchange Commission. (2002, January 16). SEC Interpretation: Management's Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures. Retrieved from https://www.sec.gov/rules/interp/33-6835.htm

Securities Exchange Commission. (2003, December 19). Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations. Retrieved from https://www.sec.gov/rules/interp/33-8350.htm

Seidman, I. (2006). Interviewing as qualitative research: A guide for researchers in education and the social sciences(3rd ed.). New York: Teachers College Press.

Shuy, R. W. (2003). In-person versus telephone interviewing. Inside interviewing: New lenses, new concerns, 175-193.

Sikka, P. (1992). Audit policy making in the UK: The case of 'the auditor's considerations in respect of going concern'. European accounting review, 1(2), 349-392.

Sikka, P. (2001). Regulation of accountancy and the power of capital: some observations. Critical Perspectives on Accounting, 12(2), 199-211.

Sikka, P., Puxty, A., Willmott, H., & Cooper, C. (1998). The impossibility of eliminating the expectations gap: Some theory and evidence. Critical Perspectives on Accounting, 9(3), 299-330.

Sikka, P., Willmott, H., & Lowe, T. (1989). Guardians of Knowledge and Public Interest: Evidence and Issues of Accountability in the UK Accountancy Profession. Accounting, Auditing & Accountability Journal, 2(2).

Simnett, R., & Huggins, A. (2014). Enhancing the auditor's report: to what extent is there support for the IAASB's proposed changes?. Accounting Horizons, 28(4), 719-747.

Sinkovics, R. R., & Ghauri, P. N. (2008). Enhancing the trustworthiness of qualitative research in international business. Management International Review, 48(6), 689-714.

Smith, M., & Taffler, R. (1992). Readability and understandability: Different measures of the textual complexity of accounting narrative. Accounting, Auditing & Accountability Journal, 5(4).

Smith, M., & Taffler, R. (1995). The incremental effect of narrative accounting information in corporate annual reports. Journal of Business Finance & Accounting, 22(8), 1195-1210.

Smith, M., & Taffler, R. J. (2000). The chairman's statement-A content analysis of discretionary narrative disclosures. Accounting, Auditing & Accountability Journal, 13(5), 624-647.

Stanton, P., Stanton, J., & Pires, G. (2004). Impressions of an annual report: an experimental study. Corporate Communications: An International Journal,9(1), 57-69.

Staw, B. M., McKechnie, P. I., & Puffer, S. M. (1983). The justification of organizational performance. Administrative science quarterly, 582-600.

Steinbart, P. J. (1989). The auditor’s responsibility for the accuracy of graphs in annual reports: some evidence of the need for additional guidance.Accounting Horizons, 3(3), 60-70.

Sutton, S. G., Arnold, V., Bedard, J. C., & Phillips, J. R. (2012). Enhancing and structuring the MD&A to aid investors when using interactive data.Journal of Information Systems, 26(2), 167-188.

Tavcar, L. R. (1998). Make the MD&A more readable. The CPA Journal, 68(1), 10.

Taylor, S. J., & Bogdan, R. (1984). Introduction to qualitative research methods: The search for meaning.

Taylor, S. J., & Bogdan, R. (1998). Introduction to qualitative research methods: A guidebook and resources (3rd ed.). New York: John Wiley & Sons

Teixeira, A., Buchheim, R., Hicks, C., Lingwood, J., Loweth, D., & Willis, A. (2005). Management commentary.

Tennyson, B. M., Ingram, R. W., & Dugan, M. T. (1990). Assessing the information content of narrative disclosures in explaining bankruptcy. Journal of Business Finance & Accounting, 17(3), 391-410.

Thomas, E., & Magilvy, J. K. (2011). Qualitative rigor or research validity in qualitative research.Journal for specialists in pediatric nursing, 16(2), 151-155.

Tricker, R. I. (1980). Corporate accountability and the role of the audit function. Corporate Policy Group.

Van Peursem, K. A., Locke, J., & Harnisch, N. (2006). Going concern guidance for New Zealand auditors: transitions in communicative acts.Critical Perspectives on Accounting, 17(1), 109-137.

Wagenhofer, A. (2003). Economic consequences of internet financial reporting. Schmalenbach Business Review, 55, 262-279.

Wheeler, S. W., Cereola, S. J., & Louwers, T. J. (2014). MD&A disclosure tendencies: The case of LIFO liquidations. Accounting Horizons, 28(4), 805-818.

Wild, S., & van Staden, C. (2013, July). Integrated reporting: initial analysis of early reporters–an institutional theory approach. In 7th Asia Pacific Interdisciplinary Accounting Research Conference(pp. 26-28).

Young, J. J. (2003). Constructing, persuading and silencing: the rhetoric of accounting standards.Accounting, Organizations and Society, 28(6), 621-638.

Young, J. J. (2006). Making up users. Accounting, Organizations and Society, 31(6), 579-600.

Appendix 1: Comparison of ISA 720 and ISA 720 (revised)

COMPARISON OF ISA 720 AND ISA 720 (REVISED)

ISA 720	ISA 720 (revised)
Scope	
1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating 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 does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. 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. 2. In this ISA (NZ) "documents containing audited financial statements" refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor's report thereon. This ISA (NZ) may also be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements, such as those used in securities offerings.	1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose. 2. … The auditor's opinion on the financial statements does not cover the other information, nor does this ISA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. 3. This ISA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared. 5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters. 6. The auditor's responsibilities relating to

	other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report. 8. The auditor's responsibilities under this ISA do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
Objective	
4. The objective of the auditor is to respond appropriately when documents contained 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.	11. The objectives of the auditor, having read the other information, are: (a) To consider whether there is a material inconsistency between the other information and the financial statements; (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit; (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and (d) To report in accordance with this ISA
Definitions	
5. For the purposes of the ISAs the following terms have the meanings attributed below: (a) **Other information** – Financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon (b) **Inconsistency** – Other information that contradicts information contained in the audit financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit	12. For purposes of the ISAs, the following terms have the meanings attributed below: (a) **Annual report** – 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

evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements (c) **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.	and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters (b) **Misstatement of the other information** – A misstatement of the other information exists when the other information is incorrectly stated or [is] otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information) (c) **Other information** – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report
Requirements	
Obtaining the "other information"	
6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements. 7. 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	13. The auditor shall: (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s); (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this ISA
Material inconsistencies	
8. 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.	
Material misstatements of fact	
14. 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 those charged with governance.	
Reading and considering the "other information"	
	14. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management: (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. 15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated 18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (b) Withdrawing from the engagement,

	where withdrawal is possible under applicable law or regulation 19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall: (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared
Responding when a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated	
	20. If, as a result of performing the procedures in paragraphs 14–15, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISAs
Reporting	
	21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report: (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or (b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information 22. When the auditor's report is required to include an Other Information section in

	accordance with paragraph 21, this section shall include: (a) A statement that management is responsible for the other information; (b) An identification of: (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report; (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; (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and (e) When other information has been obtained prior to the date of the auditor's report, either: (i) A statement that the auditor has nothing to report; or (ii) 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. 23. When the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), 3 the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e)
Reporting prescribed by law or regulation	

	24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum: (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report; (b) A description of the auditor's responsibilities with respect to the other information; and (c) An explicit statement addressing the outcome of the auditor's work for this purpose.
Documentation	
	25. In addressing the requirements of ISA 230 as it applies to this ISA, the auditor shall include in the audit documentation: (a) Documentation of the procedures performed under this ISA; and (b) The final version of the other information on which the auditor has performed the work required under this ISA
Application and Other Explanatory Material	
Pages 7 to 9 (2 pages)	Pages 10 to 100 (90 pages)

Appendix 2: Interview guide

INTERVIEW GUIDE

Topic 1: the "other information"

1. Briefly describe the process you go through in carrying out the audit regarding the "other information"
2. What is the scope of your review of the "other information"?
3. To what extent do you consult members of the audit team and/or the audit working papers before or during your review of the "other information? Or do you base the review on recalled information?
4. Do you consider Web docs if fs uploaded to web? Any special considerations for web-based situations?
5. What do you think about graphs, pictures and tables in annual reports? How do they affect the audit?
6. In your experience, how accurate is qualitative information which typically forms part of the "other information"?

Topic 2: ISA 720

1. What ***are*** your duties regarding the "other information? What ***should*** they be?
2. Do you use checklists/standard work programmes? Can I have a copy?
3. How do you determine materiality for reviewing the "other information"? What definition of materiality do you use?
4. What procedures do you undertake? To look for misstatements, inconsistencies, omissions?
5. (Following from above q.) What do you do when you identify such inconsistencies?
6. Do you consider the complexity of sentences?
7. What do you believe users perceive auditors to have done in relation to the "other information"?
8. How does the possibility of legal liability affect your approach to the audit?
9. Do you believe auditors in general are sufficiently competent to do the review of the "other information"?
10. How well do you believe that (all) auditors in general perform the review of the "other information"?

Topic 3: Future activities

1. What will be the impact of the ***new reporting requirements*** relating to ISA720? On users? On auditors? Etc.
2. What and how will ***future issues*** impact on your review of the “other information” (e.g., the development of integrated reporting, etc.)?