

STATEMENT OF AUDITING STANDARDS
160
OTHER INFORMATION IN DOCUMENTS
CONTAINING AUDITED FINANCIAL STATEMENTS

*(Effective for audits of financial statements for periods beginning before 15 December 2004)**

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* HKSA 720 "Other Information in Documents Containing Audited Financial Statements" is effective for audits of financial statements for periods beginning on or after 15 December 2004.

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*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on the auditors' consideration of the other information, on which the auditors have no obligation to report, in documents containing audited financial statements. Nothing in this SAS refers to any other information, for example information which is extracted from the annual report and published separately, or is published by the entity in a different format, for example on the Internet.
2. An entity usually issues on an annual basis a document which includes its audited financial statements together with the auditors' report thereon. This document is frequently referred to as the "annual report". In issuing such a document, an entity may also include, either by legislation or custom, other financial and non-financial information. For the purpose of this SAS, such other financial and non-financial information is called "the other information".
3. Examples of the other information include a directors' report required by legislation, a chairman's statement, an operating and financial review, financial summaries, employment data, planned capital expenditures, financial ratios and selected quarterly data.
4. An audit of financial statements is directed towards the expression of an opinion by the auditors as to whether the financial statements give a true and fair view. Accordingly, auditors have no responsibility to report that the other information is properly stated except in so far as a company incorporated under the Companies Ordinance has exercised its right under section 141C of the Companies Ordinance to show an item in the directors' report rather than in the financial statements. In that event, section 141C obliges the auditors to report on that item as if it appeared in the financial statements. Auditors may, however, be asked as a separate engagement, or be required by specific legislation, to review elements of the other information.

Consideration of the other information

5. ***Auditors should read the other information. If as a result the auditors identify any material inconsistencies between the financial statements and the other information, or become aware of any material misstatements of fact in the other information, they should seek to resolve them. (SAS 160.1)***
6. Auditors are required to read the other information because the credibility of the financial statements and the related auditors' report may be undermined by inconsistencies between the financial statements and the other information, or by misstatements of fact in the other information.
7. An inconsistency between the financial statements and the other information exists when the other information contradicts, or appears to contradict, information contained in the financial statements. An inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditors' opinion on the financial statements.
8. A misstatement of fact in the other information exists when the other information is stated incorrectly or presented in a misleading manner. It would potentially include an inconsistency between information obtained by the auditors during the audit (such as information obtained as part of the planning process or analytical procedures, or as management representations) and information which is included in the other information.

9. When auditors read the other information, they do so in the light of the knowledge they have acquired during the audit. Auditors are not expected to verify any of the other information. The audit engagement partner (and, where appropriate, other senior members of the engagement team who can reasonably be expected to be aware of the more important matters arising during the audit and to have a general understanding of the entity's affairs), reads the other information with a view to identifying whether there are any material inconsistencies between the financial statements and the other information, or material misstatements of fact in the other information.

Availability of the other information prior to the date of the auditors' report

10. Standards and guidance on dating of auditors' reports are given in SAS 600 "Auditors' reports on financial statements". In accordance with the requirements of SAS 600, the auditors should date the auditors' report as of the completion date of the audit.

Access to the other information

11. In order that the auditors can consider the other information included in the annual report, timely access to such information is required. The auditors therefore would make appropriate arrangements with the client to obtain such information prior to the date of the auditors' report where practical. In certain circumstances, all of the other information may not be available prior to such date. In these circumstances, the auditors would follow the guidance in paragraphs 24 to 29 of this SAS.

Material inconsistencies between the financial statements and the other information

12. *If on reading the other information, the auditors identify a material inconsistency between the financial statements and the other information, they should consider whether the financial statements or the other information need to be amended and should discuss the matter with management. (SAS 160.2)*
13. *If an amendment is necessary in the financial statements as a result of the material inconsistency identified, and management refuses to make the amendment, the auditors should express a qualified opinion on the financial statements in accordance with SAS 600. (SAS 160.3)*
14. *If an amendment is necessary in the other information as a result of the material inconsistency identified and management refuses to make the amendment, the auditors should consider taking further appropriate action. (SAS 160.4)*
15. The auditors' possible further courses of action are set out in paragraphs 21 to 23 of this SAS.

Material misstatements of fact in the other information

16. While reading the other information, the auditors may become aware of a material misstatement of fact.
17. *If the auditors become aware of a material misstatement of fact in the other information, they should discuss the matter with management. (SAS 160.5)*
18. When discussing the matter with management, the auditors may not be able to evaluate the validity of the other information and management's responses to the auditors' enquiries, and would need to consider whether valid differences of judgement or opinion exist.
19. *When, after discussion with management, the auditors still consider there is a material misstatement of fact in the other information, they should request management to consult with a qualified third party, such as the entity's lawyers, and should consider any advice received. (SAS 160.6)*
20. *If the auditors conclude that there is a material misstatement of fact in the other information which management refuses to correct, they should consider taking further appropriate action. (SAS 160.7)*

Auditors' possible further courses of action

21. The auditors' possible further courses of action may involve the following:
 - a. including a paragraph after the audit opinion in the auditors' report describing the material inconsistency between the financial statements and the other information or the material misstatement of fact in the other information in accordance with SAS 600;

- b. using their right under section 141(7) of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns them as auditors;
 - c. withdrawing from the engagement.
22. Auditors have regard to the nature of the inconsistency between the financial statements and the other information or the misstatement of fact in the other information that in their opinion exists. A distinction may be drawn between a matter of fact and one of judgement. It is generally more difficult for the auditors to take issue with a matter of judgement (such as management's view of the likely outcome for the following year) than a factual error. Although auditors do not substitute their judgement for that of management in such matters, there may be circumstances in which auditors are aware that the expressed view of management is significantly at variance with the entity's internal assessment or is so unreasonable as not to be credible to someone with the auditors' knowledge. Choice between the courses of action to be taken by auditors will depend in part upon the auditors' perception of the seriousness of the inconsistency between the financial statements and the other information or the misstatement of fact in the other information.
23. Auditors who are considering the course of including a paragraph after the audit opinion in the auditors' report describing the material inconsistency between the financial statements and the other information or the material misstatement of fact in the other information are advised that the qualified privilege (i.e. the defence to an action for defamation) which an auditors' report normally enjoys may not extend to comments on items of the other information which appear to be misleading. Similarly, no qualified privilege may attach to statements made by the auditors on such matter at a general meeting pursuant to their right under section 141(7) of the Companies Ordinance. The auditors would also bear in mind the provisions of section 140A of the Companies Ordinance, and in particular the obligation imposed by subsection (2) thereof, before deciding whether resignation from the engagement would be likely to resolve the problem. The auditors would consider seeking legal advice both as to which course of action they would adopt and as to the precise form of any wording to be used.

Availability of the other information after the date of the auditors' report

24. When all the other information is not available to the auditors prior to the date of the auditors' report, the auditors would read the other information at the earliest possible opportunity thereafter.
25. If, on reading the other information, the auditors identify a material inconsistency between the audited financial statements and the other information or become aware of a material misstatement of fact in the other information, the auditors would determine whether the audited financial statements or the other information need revision.
26. When revision of the audited financial statements is necessary, the auditors follow the guidance in SAS 150 "Subsequent events".
27. When revision of the other information is necessary and management agrees to make the revision, the auditors would carry out the procedures necessary under the circumstances. The procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditors' report thereon and the other information are informed of the revision.
28. *When revision of the other information is necessary but management refuses to make the revision, the auditors should consider taking further appropriate action. (SAS 160.8)*
29. When considering what further appropriate action to take, the auditors would consider taking the courses of action set out in paragraphs 21 to 23 of this SAS, as appropriate.

Compliance with International Standards on Auditing

30. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 720 "Other Information in Documents Containing Audited Financial Statements".

Effective date

31. This SAS is effective for audits of financial statements for periods beginning before 15 December 2004.