

# STAFF AUDIT PRACTICE ALERT: DETERMINING OTHER INFORMATION AS DEFINED IN ISA 720 (REVISED) IN THE SOUTH AFRICAN CONTEXT

## STAFF AUDIT PRACTICE ALERT

April 2017



## DETERMINING OTHER INFORMATION AS DEFINED IN ISA 720 (REVISED) IN THE SOUTH AFRICAN CONTEXT

This publication has been prepared by the ISA 720 (Revised) Definition of Other Information Task Group of the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS). It does not constitute an authoritative pronouncement of the IRBA, nor does it amend or override the International Standards on Auditing, South African Auditing Practice Statements or South African Guides (collectively called pronouncements).

**Further, this publication is not meant to be exhaustive.** Reading this publication is not a substitute for reading the abovementioned pronouncements.

**The IRBA has responded to the interest raised about the determination of other information, as defined in ISA 720 (Revised), in the South African context, by developing this IRBA Staff Audit Practice Alert.**

**This Alert serves to provide registered auditors with examples of reports, documents and information that entities in South Africa often prepare, with a view on whether those reports, documents or information would constitute other information. This Alert has relevance to auditors of private sector entities in South Africa.**

The International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, is effective for audits of financial statements for periods ending on or after 15 December 2016. A variety of reporting requirements and voluntary reporting practices exist in South Africa, and that has given rise to queries about the consistent application of ISA 720 (Revised) by registered auditors. The auditor has certain responsibilities under ISA 720 (Revised) when other information has been identified in an entity's annual report.

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## BACKGROUND

1. The Basis for Conclusions relating to ISA 720 (Revised) states: “Over recent years there have been significant developments in corporate reporting, particularly in relation to the detail included in companies’ annual reports, as well as the importance ascribed by users to the information in annual reports beyond the audited financial statements and the auditor’s report thereon. The weight that users place on this other information, and the need for increased clarity in the auditor’s report regarding the auditor’s involvement with such other information, has notably increased since extant ISA 720 was issued. In light of these developments, the IAASB sought to revise ISA 720 to update and revise the standard to ensure that it is sufficient and fit-for-purpose in the context of today’s financial reporting environment.”<sup>1</sup>
2. Consistent with the sentiment expressed in the extract above, corporate reporting practices in South Africa have evolved significantly over the past decade, for example, with the introduction of the concept of the integrated report in King III<sup>2</sup> in 2009. The International <IR> Framework issued by the International Integrated Reporting Council (IIRC) defines an integrated report as “a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term”<sup>3</sup>.
3. ISA 720 (Revised)<sup>4</sup> identifies the scope of other information as information included in an entity’s annual report. The Companies Act, 2008, does not require or address the preparation of an annual report and therefore does not define the annual report. It, however, prescribes the content of a company’s annual financial statements. The JSE Limited Listings Requirements prescribe certain disclosures that should be included in a listed entity’s annual report, but also do not define the annual report.
4. Reporting practices in South Africa, especially among listed entities, are diverse. For example:
  - Some entities title their reports “integrated reports”, while others refer to “integrated annual reports” or “annual reports”.
  - Some entities include the full annual financial statements in their integrated or annual reports, while others only present summaries of those annual financial statements.
  - Some entities issue their integrated or annual reports at the same time as their results announcements, while other entities’ integrated or annual reports only follow later on.
  - Some entities issue a single document, while others issue two or more documents comprising the entities’ annual reporting to stakeholders.
5. The JSE Limited prescribes the manner and form in which listed entities are required to announce their financial results to the market, either through the Stock Exchange News Service (SENS) and/or in the press, as is appropriate.
6. Listed entities often voluntarily present information regarding their financial results, in addition to the reporting required by the JSE Limited, in results booklets or analyst

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<sup>1</sup> Basis for conclusions on ISA 720 (Revised), paragraph 1.

<sup>2</sup> The King Code of Governance for South Africa, 2009, and the King Report on Governance for South Africa, 2009.

<sup>3</sup> The International <IR> Framework, paragraph 1.1.

<sup>4</sup> ISA 720 (Revised), paragraph 12(c).

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presentations. Such documents may or may not contain more detail, if compared to the information published through SENS and/or in the press.

7. ISA 720 (Revised) applies to all ISA audits and also affects the audits of non-listed entities.
8. This IRBA Staff Audit Practice Alert has been developed to assist registered auditors in determining what constitutes other information in terms of ISA 720 (Revised). It serves to address the IRBA's objective of consistent high-quality audit work by registered auditors, while also taking the necessary measures to promote and protect the public interest by ensuring a consistent application of ISA 720 (Revised) for South African specific scenarios.

### *The scope of this IRBA Staff Audit Practice Alert*

9. This IRBA Staff Audit Practice Alert addresses the determination of other information in private sector audit engagements in South Africa.
10. It does not address the auditor's required work effort or reporting responsibilities relating to other information.

### *The scope of ISA 720 (Revised)*

11. ISA 720 (Revised) deals with the auditor's responsibilities relating to other information.
12. It does not apply to preliminary announcements of financial information or securities offering documents, including prospectuses<sup>5</sup>.

### *Definitions in ISA 720 (Revised)*

13. ISA 720 (Revised) defines other information as "financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A8-A10)"<sup>6</sup>.
14. ISA 720 (Revised) defines annual report as "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 and risks and uncertainties, a statement by the entity's governing body and reports covering governance matters. (Ref: Para. A1-A5)"<sup>7</sup>.
15. The related application material paragraphs of ISA 720 (Revised) are included in Annexure 2.

### *Other information in the South African context: Basis for the IRBA's conclusions*

16. ISA 720 (Revised) requires the auditor to determine, through discussion with management, which document(s) comprise the annual report, and the entity's planned manner and timing of the issuance of such document(s).<sup>8</sup> Registered

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<sup>5</sup> ISA 720 (Revised) paragraph 7 (a) and (b)

<sup>6</sup> ISA 720 (Revised) paragraph 12 (c)

<sup>7</sup> ISA 720 (Revised) paragraph 12 (a)

<sup>8</sup> ISA 720 (Revised), paragraph 13(a).

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auditors are therefore required to consider client specific facts and circumstances when determining the document(s) that comprise their client's annual report. This IRBA Staff Audit Practice Alert is not a substitute for such a determination.

17. A consideration of "law, regulation and custom" forms part of the determination of other information. This is evidenced in both the definition of annual report and in the Standard's related application material<sup>9</sup>.
18. As reflected in the revised South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*, the IRBA established that in the South African context an integrated report meets the definition of other information<sup>10</sup>. The IRBA is of the view that an entity's integrated report will be its annual report for purposes of ISA 720 (Revised), irrespective of the following:
  - Its title (for example "Integrated report"; "Integrated annual report" or "Annual report"); and
  - Whether the annual financial statements and the auditor's report thereon are contained therein.
19. The IRBA is of the view that for a South African company whose financial statements are audited, the annual report, for purposes of ISA 720 (Revised), includes:
  - Annual financial statements;
  - The integrated report (if prepared); and
  - Any other documents that are described within the company's annual financial statements or its integrated report as forming part of the company's annual financial statements or its integrated report.
20. ISA 720 (Revised) does not expand on the meaning of "accompanies" in the definition of annual report. The Standard does not, for example, indicate that a document would "accompany" the financial statements only if it is issued at the same time or in close proximity to the issuance of the financial statements. The IRBA's reading of the Standard is that a document could meet the definition of an annual report even if there was a significant time delay between the issue date of the financial statements and that of the entity's annual report.
21. If a report is an entity's annual report for purposes of ISA 720 (Revised), all information contained therein, other than the financial statements and the auditor's report thereon, constitute other information.
22. The application material to ISA 720 (Revised) explains that an annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). It lists, among others, separate regulatory reports and sustainability reports as examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom) and that, therefore are not other information within the scope of the ISA<sup>11</sup>. The IRBA is thus of the view that regulatory reports and sustainability reports that are issued as standalone documents, without, for example, being described as forming part of the entity's annual report, are not part

<sup>9</sup> ISA 720 (Revised), paragraphs 12(a); A1; A3; A5; and A11.

<sup>10</sup> SAAPS 3 (Revised, November 2015) Note N8 to the illustrative reports in Part A.

<sup>11</sup> ISA 720 (Revised), paragraph A5.

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of the combination of documents that comprise an entity's annual report. The Global Reporting Initiative (GRI) defines a sustainability report as "a report published by a company or organisation about the economic, environmental, and social impacts caused by its everyday activities".

23. ISA 720 (Revised) refers to a scope exclusion of "preliminary announcements of financial information", but does not define this term<sup>12</sup>. The IRBA's view is that, in context of entities listed on the JSE, this scope exclusion from ISA 720 (Revised) applies to announcements of information that has been reviewed in accordance with the International Standard on Review Engagements (ISRE) 2410, *Review of interim financial information performed by the independent auditor of the entity* (as opposed to being audited, which is discussed in paragraph 24 below).
24. The Explanatory Memorandum of ED-720 (2014) highlighted that the International Auditing and Assurance Standards Board's decision that preliminary announcements of financial information and securities offering documents (including prospectuses) are excluded from the scope of ISA 720 (Revised) took into account feedback from respondents to ED-720 (2012) that national law or regulation typically address the auditor's responsibilities in relation to preliminary announcements and securities offering documents, and that there is a potential for significant conflict with such law or regulation<sup>13</sup>. In the South African context, the JSE Listings Requirements address the auditor's responsibilities in relation to the announcement of a listed entity's financial information on SENS and/or in the press, as appropriate, in circumstances where the underlying information has been audited. Furthermore, listed entities prepare SENS and/or press announcements to comply with a specific regulatory reporting requirement, and such announcements are different from an entity's annual report in nature and purpose. The IRBA is therefore of the view that results announcements on SENS and/or in the press that relate to information that has been audited or reviewed do not form part of the combination of documents that comprise an annual report and that, therefore, are not other information within the scope of ISA 720 (Revised).
25. Information that a listed entity may prepare on a voluntary basis for a specific stakeholder grouping, such as analysts, has a different purpose from that of an annual report. The IRBA is of the view that such information, where presented separately from the annual report, does not form part of the combination of documents that comprise an annual report. Therefore, it is not other information within the scope of ISA 720 (Revised).
26. An entity's annual report may include information that has been the subject matter of an assurance engagement other than the audit of the financial statements. ISA 720 (Revised) does not contain a scope exemption for such information and it is therefore other information within the scope of ISA 720 (Revised).
27. Examples of reporting scenarios in South Africa are provided in Annexure 1, with the IRBA's view on whether the reports are the entity's annual report, and if so, the related documents, reports or information that would meet the definition of other information.

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<sup>12</sup> ISA 720 (Revised), paragraph 7(a).

<sup>13</sup> ED-720 (2014), Explanatory memorandum, paragraph 12.

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**ANNEXURE 1 – EXAMPLES OF REPORTS, DOCUMENTS AND INFORMATION THAT COULD BE DETERMINED TO BE OTHER INFORMATION**

1. These examples may be useful to registered auditors when determining what constitutes other information in the South African context. They are, however, not an exhaustive list of considerations and should not take away from the auditor the requirement to apply ISA 720 (Revised) and consider its application material.
2. The table contains cross references to the most relevant paragraphs in the section of this Staff Audit Practice Alert, which is titled *Other Information in the South African Context: Basis for the IRBA's Conclusions*, as a means of explaining the conclusion reached.

<b>PRIVATE SECTOR ENTITIES</b>			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u>  <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
1	As part of the year-end financial reporting process, a company prepares a document that contains its annual financial statements (the directors’ report, audit committee report and company secretary certificate, audited financial statements and the auditor’s report thereon) and a detailed income statement as supplemental information. The document <sup>14</sup> is distributed to the company’s shareholders for purposes of the company’s annual general meeting.	Yes. Explanation: Para. 19 and 21.	All information in the document, other than the audited financial statements and the auditor’s report thereon. Other information includes the directors’ report, audit committee report, company secretary certificate and the detailed income statement.
2	A non-listed entity prepares its annual report as defined in ISA 720 (Revised) 10 months after the auditor’s report	Yes. Explanation: Para. 20 and 21.	All information in the annual report, other than the financial statements

<sup>14</sup> In South Africa this is commonly referred to as the glossy annual report.

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<b>PRIVATE SECTOR ENTITIES</b>			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u>  <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
	signing date. This contains the financial statements, the auditor’s report thereon and a chairman’s report.		and the auditor’s report thereon. Other information includes the chairman’s report.
3	The directors of a non-profit company decide to prepare a report that will be used in a presentation to potential donors. It will contain the company’s most recent financial statements and the auditor’s report thereon. This report will be prepared in addition to the company’s annual financial statements.	No. Explanation: Para. 22.	Not applicable.
4	Regulatory returns (standalone documents) that are submitted to regulators by entities within regulated industries, for example, banks and medical schemes. The returns do not include the financial statements or the auditor’s report thereon.	No. Explanation: Para. 22.	Not applicable. <sup>15</sup>
5	A retirement fund submits its “Annual Financial Statements in terms of Section 15 of the Pension Funds Act No 24, 1956 as amended (Pension Funds Act)” after the end of its financial year to the Financial Services	Yes. Explanation: Para. 21, 22 and 26.	All information in the regulatory return, other than the financial statements and the auditor’s report thereon. <sup>16;17</sup>

<sup>15</sup> The auditor may have other responsibilities through regulatory requirements.

<sup>16</sup> The auditor may have other responsibilities through regulatory requirements.

<sup>17</sup> Refer to ISA 800.A17 for application material regarding reports containing or accompanying special purpose financial statements. Furthermore, a retirement fund’s annual report, as defined in ISA 720 (Revised), could include documents and/or reports that are distributed by the fund to its members, in addition to the regulatory return referred to in example 5. Client specific facts and circumstances should be considered.

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PRIVATE SECTOR ENTITIES			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u>  <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
	Board. The return includes the financial statements and the auditor’s report thereon (i.e. not a standalone regulatory return).		
6	A company prepares an integrated report that includes the company’s annual financial statements and the auditor’s report thereon.	Yes. Explanation: Para. 18 and 21.	All information in the integrated report, other than the financial statements and the auditor’s report thereon.
7	A company prepares an integrated report that does not include the company’s annual financial statements, the auditor’s report thereon or a summary of the annual financial statements.	Yes. Explanation: Para. 18 and 21.	All information in the integrated report.
8	A company prepares an integrated report that does not include the company’s annual financial statements or auditor’s report thereon but includes a summary of the annual financial statements. The summary financial statements were not audited.	Yes. Explanation: Para. 18 and 21.	All information in the integrated report, including the summary financial statements.
9	A company prepares an integrated report that does not include the company’s annual financial statements or auditor’s report thereon but includes a summary of the annual financial statements and the auditor’s ISA 810 (Revised) report on the summary financial statements.	Yes. Explanation: Para. 18 and 21.	All information in the integrated report, excluding the auditor’s ISA 810 (Revised) audit report.  <i>Additional note:</i> From an ISA 810 (Revised) perspective, the information in the integrated report (excluding the summary financial statements and the



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<b>PRIVATE SECTOR ENTITIES</b>			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u> <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
			ISA 810 report thereon) will be “information included in a document containing the summary financial statements and the auditor’s report thereon”, which ISA 810 (Revised) requires the auditor to read <sup>18</sup> .
10	A listed entity prepares a sustainability report that is published as a standalone document completely separate from the entity’s integrated report.	No. Explanation: Para. 22.	Not applicable. <sup>19</sup>
11	An entity prepares an integrated report. The index page to the integrated report states that the entity’s sustainability report forms part of the entity’s integrated report. The sustainability report is presented in a separate document.	Yes. Explanation: Para. 18, 19, 20 and 21.	All information in the integrated report and the sustainability report, other than the financial statements and the auditor’s report thereon.
12	An analyst presentation is presented by a listed entity at the time of the release of its audited financial results for the year, and gets published on the entity’s website.	No. Explanation: Para. 25.	Not applicable.
13	A listed entity’s annual financial results are communicated through SENS. The summary consolidated financial statements included in the SENS announcement are derived from audited financial statements.	No. Explanation: Para. 24.	Not applicable. <sup>20</sup>

<sup>18</sup> ISA 810 (Revised), paragraph 14

<sup>19</sup> The auditor may have other responsibilities through regulatory requirements.

<sup>20</sup> The auditor may have other responsibilities through regulatory requirements

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<b>PRIVATE SECTOR ENTITIES</b>			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u> <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
14	A listed entity publishes reviewed annual results on SENS.	No. Explanation: Para. 23.	Not applicable.  <i>Additional note:</i> The requirements of ISRE 2410 paragraphs 36 and 37 to read the other information that accompanies the financial information to consider whether any such information is materially inconsistent with the financial information remains relevant, even though this is not other information for purposes of ISA 720 (Revised).
15	An entity prepares an integrated report that includes a website reference to its King IV <sup>21</sup> “apply and explain” disclosures.	Yes. Explanation: Para. 18 and 21.	All information in the integrated report, including the King IV “apply and explain” disclosures, other than the financial statements and the auditor’s report thereon.
16	An entity prepares an integrated report that contains its consolidated financial statements and the auditor’s report thereon. The entity presents its standalone financial statements and the auditor’s report thereon in a separate	Yes. Explanation: Para. 18, 19 and 21.	All information in the integrated report and the document that contains the standalone financial statements document, other than the financial

<sup>21</sup> King IV Report on Corporate Governance in South Africa, 2016.

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PRIVATE SECTOR ENTITIES			
	<u>Scenario</u>	<u>Does the report/document meet the definition of an annual report in terms of ISA 720 (Revised)?</u> <u>[Yes / No]</u>	<u>If “yes”, determine the other information in the scenario</u>
	document that includes a detailed income statement.		statements and the auditor’s reports thereon.

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### ANNEXURE 2 – EXTRACTS FROM THE APPLICATION MATERIAL OF ISA 720 (REVISED)

#### *Annual Report* (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.
- A2. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.
- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
  - Chairman's statement.
  - Corporate governance statement.
  - Internal control and risk assessment reports.
- A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.
- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA, include:
- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries.
  - Corporate social responsibility reports.
  - Sustainability reports.
  - Diversity and equal opportunity reports.

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- Product responsibility reports.
- Labour practices and working conditions reports.
- Human rights reports.

*Other Information* (Ref: Para. 12(c))

- A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.
- A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements<sup>5</sup>. As such disclosures are required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this ISA.
- A10. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this ISA.

<sup>5</sup> For example, International Financial Reporting Standards (IFRS) 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the IFRSs to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.