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***International Standard
on Auditing
(UK and Ireland) 720 (Revised)***

**SECTION A– OTHER INFORMATION IN
DOCUMENTS CONTAINING AUDITED
FINANCIAL STATEMENTS**

**SECTION B – THE AUDITOR’S STATUTORY
REPORTING RESPONSIBILITY IN
RELATION TO DIRECTORS’ REPORTS**

THE AUDITING PRACTICES BOARD LIMITED

The Auditing Practices Board Limited, which is part of the Financial Reporting Council, prepares for use within the United Kingdom and the Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

The Auditing Practices Board Limited discharges its responsibilities through a Board ('the APB') comprising individuals who are eligible for appointment as company auditors, and those who are not so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.

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**INTERNATIONAL STANDARD ON AUDITING
(UK AND IRELAND) 720 (REVISED)**

**SECTION A - OTHER INFORMATION IN DOCUMENTS
CONTAINING AUDITED FINANCIAL STATEMENTS**

**SECTION B - THE AUDITOR'S STATUTORY REPORTING
RESPONSIBILITY IN RELATION TO DIRECTORS'
REPORTS**

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International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720 “Other Information in Documents Containing Audited Financial Statements” should be read in the context of the Auditing Practices Board’s Statement “The Auditing Practices Board - Scope and Authority of Pronouncements (Revised)” which sets out the application and authority of ISAs (UK and Ireland).

This ISA (UK and Ireland) adopts the text of ISA 720 issued by the International Auditing and Assurance Standards Board. Supplementary material added by the APB is differentiated by the use of grey shading.

SECTION A – OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Introduction

1. The purpose of this Section of this International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) is to establish standards and provide guidance on the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements. This ISA (UK and Ireland) applies when an annual report is involved; however, it may also apply to other documents, such as those used in securities offerings¹.
- 1-1. The standards and guidance in this Section apply to all other information included in documents containing audited financial statements, including the directors' report. Further standards and guidance on the auditor's statutory reporting obligations in relation to directors' reports are set out in Section B.
 - 1-2. This Section of this ISA (UK and Ireland) is primarily directed towards the auditor's consideration of other information contained in an entity's published annual report. It is not intended to address issues which may arise if financial information is extracted from that document.
 - 1-3. This ISA (UK and Ireland) uses the terms 'those charged with governance' and 'management'. The term 'governance' describes the role of persons entrusted with the supervision, control and direction of an entity. Ordinarily, those charged with governance are accountable for ensuring that the entity achieves its objectives, and for the quality of its financial reporting and reporting to interested parties. Those charged with governance include management only when they perform such functions.
 - 1-4. In the UK and Ireland, those charged with governance include the directors (executive and non-executive) of a company or other body, the members of an audit committee where one exists, the partners, proprietors, committee of management or trustees of other forms of entity, or equivalent persons responsible for directing the entity's affairs and preparing its financial statements.
 - 1-5. 'Management' comprises those persons who perform senior managerial functions.
 - 1-6. In the UK and Ireland, depending on the nature and circumstances of the entity, management may include some or all of those charged with governance (e.g. executive directors). Management will not normally include non-executive directors.

¹ The guidance in this ISA (UK and Ireland) is limited to Annual Reports and statutory audits. Guidance on other information issued with investment circulars is covered in Statement of Investment Reporting Standard (SIR) 1000.

2. The auditor should read the other information to identify material inconsistencies with the audited financial statements.

2-1. If, as a result of reading the other information, the auditor becomes aware of any apparent misstatements therein, or identifies any material inconsistencies with the audited financial statements, the auditor should seek to resolve them.

3. A “material inconsistency” exists when other information contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.

4. An entity ordinarily issues on an annual basis a document which includes its audited financial statements together with the auditor’s report thereon. This document is frequently referred to as the “annual report.” In issuing such a document, an entity may also include, either by law or custom, other financial and non-financial information. For the purpose of this ISA (UK and Ireland), such other financial and non-financial information is called “other information.”

4-1. When the auditor reads the other information, the auditor does so in the light of the knowledge the auditor has acquired during the audit. The auditor is 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 significant misstatements therein or matters which are inconsistent with the financial statements.

4-2. Guidance to auditors in the UK and Ireland on the consideration of other information where the annual financial statements accompanied by the auditor’s report are published on an entity’s website, or in Great Britain where companies can meet their statutory reporting obligations to shareholders by distributing annual financial statements and certain other reports electronically, is given in the Appendix to this Section².

5. Examples of other information include a report by management or those charged with governance on operations, financial summaries or highlights, employment data, planned capital expenditures, financial ratios, names of officers and directors and selected quarterly data.

² In Great Britain The Companies Act (Electronic Communications) Order 2000 enables companies to meet, subject to certain conditions, their statutory reporting obligations to shareholders by distributing annual financial statements and certain other reports electronically, or to post their financial statements on their web site and advise shareholders of this.

- 5-1. Further examples relevant in the UK and Ireland are a directors' report required by statute (see Section B), statements relating to corporate governance, as required by the Listing Rules, a chairman's statement, a voluntary Operating and Financial Review and non-statutory financial information included within the annual report³.
- 5-2. If the auditor believes that the other information is misleading, and the auditor is unable to resolve the matter with management and those charged with governance, the auditor considers the implications for the auditor's report and what further actions may be appropriate. The auditor has regard to the guidance in paragraphs 18-5 and 18-6 below.
6. In certain circumstances, the auditor has a statutory or contractual obligation to report specifically on other information. In other circumstances, the auditor has no such obligation. However, the auditor needs to give consideration to such other information when issuing a report on the financial statements, as the credibility of the audited financial statements may be undermined by inconsistencies which may exist between the audited financial statements and other information.
- 6-1. The credibility of the audited financial statements may also be undermined by misstatements within the other information.
7. Some jurisdictions require the auditor to apply specific procedures to certain of the other information, for example, required supplementary data and interim financial information. If such other information is omitted or contains deficiencies, the auditor may be required to refer to the matter in the auditor's report.
- 7-1. In the UK and Ireland an example of this type of work for a listed company would include the auditor's review of whether the Corporate Governance Statement reflects the company's compliance with the provisions of the Combined Code specified by the Listing Rules for review by the auditor.
8. When there is an obligation to report specifically on other information, the auditor's responsibilities are determined by the nature of the engagement and by local legislation and professional standards. When such responsibilities involve the review of other information, the auditor will need to follow the guidance on review engagements in the appropriate ISAs (UK and Ireland).

³ The APB recognises that in some circumstances the presentation of non-statutory financial information and associated narrative explanations with the statutory results may help shareholders understand better the financial performance of a company. However, the APB is concerned that in other circumstances such non-statutory information in annual reports has the potential to be misleading and shareholders may sometimes be misinformed by the manner in which non-statutory information is presented. The APB believes that the potential for non-statutory information to be misleading is considerable when undue and inappropriate prominence is given to the non-statutory information, when there is no description of the non-statutory information and, where appropriate, the adjusted numbers are not reconciled to the statutory financial information.

Access to Other Information

9. In order that an auditor can consider other information included in the annual report, timely access to such information will be required. The auditor therefore needs to make appropriate arrangements with the entity to obtain such information prior to the date of the auditor's report⁴. In certain circumstances, all the other information may not be available prior to such date. In these circumstances, the auditor would follow the guidance in paragraphs 20-23⁵.

Consideration of Other Information

10. The objective and scope of an audit of financial statements are formulated on the premise that the auditor's responsibility is restricted to information identified in the auditor's report. Accordingly, the auditor has no specific responsibility to determine that other information is properly stated.

Material Inconsistencies

11. **If, on reading the other information, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be amended.**

11-1. If the auditor identifies a material inconsistency the auditor should seek to resolve the matter through discussion with those charged with governance.

11-2. If the auditor concludes that the other information contains inconsistencies with the financial statements, and the auditor is unable to resolve them through discussion with those charged with governance, the auditor considers requesting those charged with governance to consult with a qualified third party, such as the entity's legal counsel and considers the advice received.

12. **If an amendment is necessary in the audited financial statements and the entity refuses to make the amendment, the auditor should express a qualified or adverse opinion.**

13. **If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency or taking**

⁴ ISA (UK and Ireland) 700 requires that "The auditor should not date the report earlier than the date on which all other information contained in a report of which the audited financial statements form a part have been approved by those charged with governance and the auditor has considered all necessary available evidence."

⁵ Paragraphs 19 to 23 are not applicable in an audit conducted in compliance with ISAs(UK and Ireland).

other actions. The actions taken, such as not issuing the auditor's report or withdrawing from the engagement, will depend upon the particular circumstances and the nature and significance of the inconsistency. The auditor would also consider obtaining legal advice as to further action.

13-1. In circumstances where the auditor has no issues with the financial statements themselves, and the emphasis of matter is being used to report on matters other than those affecting the financial statements, an emphasis of matter paragraph in relation to a material inconsistency does not give rise to a qualified audit opinion.

Material Misstatements of Fact

14. While reading the other information for the purpose of identifying material inconsistencies, the auditor may become aware of an apparent material misstatement of fact.

15. For the purpose of this ISA(UK and Ireland), a "material misstatement of fact" in other information exists when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.

15-1. A material misstatement of fact in other information would potentially include an inconsistency between information obtained by the auditor 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.

16. **If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management⁶** When discussing the matter with the entity's management, the auditor may not be able to evaluate the validity of the other information and management's responses to the auditor's inquiries, and would need to consider whether valid differences of judgment or opinion exist.

16-1. **The auditor should consider whether the other information requires to be amended.**

17. **When the auditor still considers that there is an apparent misstatement of fact, the auditor should request management⁷ to consult with a qualified third party, such as the entity's legal counsel and should consider the advice received.**

⁶ In the UK and Ireland the auditor discusses such matters with, and obtains responses from, those charged with governance.

⁷ In the UK and Ireland the auditor requests those charged with governance to consult with a qualified third party.

18. **If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor should consider taking further appropriate action.** The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.

18-1. In the UK and Ireland the auditor requests those charged with governance to correct any material misstatements of fact in the other information.

18-2. **If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should consider including in the auditor's report an emphasis of matter paragraph describing the material misstatement.**

18-3. In circumstances where the auditor has no issues with the financial statements, and the emphasis of matter is being used to report on matters other than those affecting the financial statements, an emphasis of matter paragraph in relation to a material misstatement of fact in the other information does not give rise to a qualified audit opinion.

18-4. The auditor has regard to the nature of the inconsistency or misstatement that in the auditor's opinion exists. A distinction may be drawn between a matter of fact and one of judgment. It is generally more difficult for the auditor to take issue with a matter of judgment (such as the view of those charged with governance of the likely out-turn for the following year) than a factual error. Although an auditor does not substitute the auditor's judgment for that of those charged with governance in such matters, there may be circumstances in which the auditor is aware that the expressed view of those charged with governance is significantly at variance with the entity's internal assessment or is so unreasonable as not to be credible to someone with the auditor's knowledge.

Further Actions Available to the Auditor

18-5. The auditor of a limited company in the United Kingdom or the Republic of Ireland may use the auditor's right to be heard at any general meeting of the members on any part of the business of the meeting which concerns the auditor as auditor⁸.

18-6. The auditor may also consider resigning from the audit engagement. In the case of auditors of limited companies in the United Kingdom or the Republic of Ireland, the requirements for the auditor to make a statement on ceasing to hold office as auditor apply⁹. When making a statement in these circumstances, the considerations set out in paragraph 18-4 above would normally be applicable.

⁸ The relevant reference for Great Britain is section 390 of the Companies Act 1985, for Northern Ireland is Article 398 of the Companies (Northern Ireland) Order 1986 and for the Republic of Ireland is section 193(5) of the Companies Act 1990.

⁹ The relevant reference for Great Britain is section 394 of the Companies Act 1985, for Northern Ireland is Article 401A of the Companies (Northern Ireland) Order 1986 and for the Republic of Ireland is section 185 of the Companies Act 1990.

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

Paragraphs 19 to 23 are not applicable in an audit conducted in accordance with ISAs (UK and Ireland). ISA (UK and Ireland) 700, "The Auditor's Report on Financial Statements" requires that "The auditor should not date the report earlier than the date on which all other information contained in a report of which the audited financial statements form a part have been approved by those charged with governance and the auditor has considered all necessary available evidence."

19. *When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would read the other information at the earliest possible opportunity thereafter to identify material inconsistencies.*
20. *If, on reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, the auditor would determine whether the audited financial statements or the other information need revision.*
21. *When revision of the audited financial statements is appropriate, the guidance in ISA (UK and Ireland) 560, "Subsequent Events" would be followed.*
22. *When revision of the other information is necessary and the entity agrees to make the revision, the auditor would carry out the audit procedures necessary under the circumstances. The audit procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor's report thereon and the other information are informed of the revision.*
23. ***When revision of the other information is necessary but management refuses to make the revision, the auditor should consider taking further appropriate action. The actions taken could include such steps as notifying those charged with governance in writing of the auditor's concern regarding the other information and obtaining legal advice.***

Effective Date

- 23-1. This Section of this ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 April 2005 and ending on or after 31 March 2006.

Public Sector Perspective

Additional guidance for auditors of public sector bodies in the UK and Ireland is given in:

- Practice Note 10 “Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)”
- Practice Note 10(I) “The Audit of Central Government Financial Statements in Ireland”

1. *This ISA (UK and Ireland) is applicable in the context of the audit of financial statements. In the public sector, the auditor may often have a statutory or contractual obligation to report specifically on other information. As paragraph 8 of Section A of this ISA (UK and Ireland) indicates, the procedures stated in this ISA (UK and Ireland) would not be adequate to satisfy legislative or other audit requirements related to, for example, the expression of an opinion on the reliability of performance indicators and other information contained in the annual report. It would be inappropriate to apply this ISA (UK and Ireland) in circumstances where the auditor does have an obligation to express an opinion on such information. In the absence of specific auditing requirements in relation to “other information,” the broad principles contained in this ISA (UK and Ireland) are applicable.*

APPENDIX

Electronic Publication of the Auditor's Report

Introduction

1. In Great Britain The Companies Act 1985 (Electronic Communications) Order 2000 (the Electronic Communications Order) enables companies to meet, subject to certain conditions, their statutory reporting obligations to shareholders by distributing annual financial statements and certain other reports¹⁰ electronically, or to post their financial statements on their web site and advise shareholders of this.
2. Various types of financial information can be found on web sites including information that has been audited (for example the annual financial statements), information which the auditor may have reviewed (for example interim financial information) and information with which the auditor has had no direct involvement, such as financial highlights from a company's Annual Report or may never have seen, such as presentations for analysts. In addition, web sites typically contain a considerable amount of non-financial information.
3. The purpose of this Appendix is to provide guidance to auditors on the consideration of other information not only if companies decide to take advantage of the Electronic Communications Order, but also in the more common current situation where the annual financial statements accompanied by the auditor's report are published on an entity's web site¹¹.

The Auditor's Consideration of Other Information Issued with the Annual Report

Checking Information Presented Electronically

4. When companies include the annual financial statements and the auditor's report on their web site or, in Great Britain, decide to distribute annual financial statements to their shareholders electronically, the auditor:
 - (a) Reviews the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed accounts;
 - (b) Checks that the proposed electronic version is identical in content with the manually signed accounts; and

¹⁰ Other reports include Summary Financial Statements.

¹¹ This guidance is generally applicable both to auditors in Great Britain (where the Electronic Communications Order applies) and in Northern Ireland and the Republic of Ireland (where it does not).

- (c) Checks that the conversion of the manually signed accounts into an electronic format has not distorted the overall presentation of the financial information, for example, by highlighting certain information so as to give it greater prominence.
5. It is recommended that the auditor retains a printout or disk of the final electronic version for future reference if necessary.

Auditor's Report Wording

6. The auditor considers whether the wording of the auditor's report is suitable for electronic distribution. Issues include:
- Identifying the financial statements that have been audited and the information that has been reviewed, or read, by the auditor.
 - Identifying the nationality of the accounting and auditing standards applied.
 - Limiting the auditor's association with any other information distributed with the Annual Report.

Identification of the Financial Statements That Have Been Audited

7. In Annual Reports produced in a hard copy format, the auditor's report usually identifies the financial statements which have been audited by reference to page numbers. The use of page numbers is often not a suitable method of identifying particular financial information presented on a web site¹² The auditor's report therefore needs to specify in another way the location and description of the information that has been audited.
8. The APB recommends that the auditor's report describes, by name, the primary statements that comprise the financial statements. The same technique can also be used to specify the information that has been reviewed or, because it is included in the Annual Report, read by the auditor.
9. The auditor ensures that the auditor's statutory report on the full financial statements is not associated with extracts from, or summaries of, those audited financial statements.

¹² The audited financial statements can be presented on the web site using a variety of webfile formats. As at the date of this Bulletin, examples of these are the Portable Document Format (PDF) or Hypertext Mark-up Language (HTML). Page numbers generally continue to be an effective referencing mechanism for PDF files but this is not always the case when data is represented in HTML.

Identification of the Nationality of the Accounting and Auditing Standards Applied

10. Auditor's reports on web sites will be accessible internationally, and it is therefore important that the auditor's report indicates clearly the nationality of the accounting standards used in the preparation of the financial statements and the nationality of the auditing standards applied. For the same reason, the auditor ensures that the auditor's report discloses sufficient of the auditor's address to enable readers to understand in which country the auditor is located.

Limitation of the Auditor's Association With any Other Information Distributed With the Annual Report

11. In addition to the Annual Report many companies publish on their web sites a considerable volume of financial and non-financial information. This information could take the form of additional analyses or alternative presentations of audited financial information. Users of the web site are likely to find it difficult to distinguish financial information which the auditor has audited, or read, from other data. This issue is exacerbated when there are hyperlinks which allow users to move easily from one area of the web site to another.
12. The auditor gives careful consideration to the use of hyperlinks between the audited financial statements and information contained on the web site that has not been subject to audit or 'reading' by the auditor ('other information'). To avoid possible misunderstandings concerning the scope of the audit, the auditor requests those charged with governance to ensure that hyperlinks contain warnings that the linkage is from audited to unaudited information.
13. Sometimes audited information is not included in the financial statements themselves (e.g. certain information relating to directors' remuneration may be set out as part of a company's corporate governance disclosures). The APB is of the view that companies should be encouraged to make disclosures that are required to be audited, as part of the financial statements or included in the Annual Report in such a way that it is clear which elements of it have been audited. In other circumstances the auditor assesses whether the scope of the audit will be capable of being clearly described. If this cannot be achieved to the satisfaction of the auditor it may be necessary to describe the particulars that have been audited within the auditor's report.
14. The auditor is concerned to establish that the auditor's report on the financial statements is not inappropriately associated with other information. The auditor takes steps to satisfy themselves that information that they have audited or, because it is included in the Annual Report, read, is distinguished from other information in a manner appropriate to the electronic format used by the entity. Techniques that can be used to differentiate material within a web site include

- Icons or watermarks.
- Colour borders.
- Labels/banners such as 'annual report' or 'audited financial statements'.

The appropriate mode of differentiation between audited and unaudited information will be dependent on the electronic format selected, and the nature and extent of other information presented on the web site. The method of differentiation would normally also be clearly stated in an introduction page within the web site.

15. During the course of the audit, the auditor discusses with the those charged with governance or, where appropriate, the audit committee how the financial statements and auditor's report will be presented on the entity's web site with a view to minimizing the possibility that the auditor's report is inappropriately associated with other information. If the auditor is not satisfied with the proposed electronic presentation of the audited financial statements and auditor's report, the auditor requests that the presentation be amended. If the presentation is not amended the auditor will, in accordance with the terms of the engagement, not give consent for the electronic release of the audit opinion.
16. If the auditor's report is used without the auditor's consent, and the auditor has concerns about the electronic presentation of the audited financial statements or the auditor's report and appropriate action is not taken by those charged with governance, the auditor seeks legal advice as necessary. The auditor also considers whether it would be appropriate to resign.

SECTION B - THE AUDITOR'S STATUTORY REPORTING RESPONSIBILITY IN RELATION TO DIRECTORS' REPORTS

Introduction

1. The purpose of this Section of this International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) is to establish standards and provide guidance on the auditor's statutory reporting responsibility in relation to directors' reports.
2. In the United Kingdom and the Republic of Ireland, legislation¹ requires the auditor of a company to state in the auditor's report whether, in the auditor's opinion, the information given in the directors' report is consistent with the financial statements.
3. "Information given in the directors' report" includes information that is included by way of cross reference to other information presented separately from the directors' report. For example, a UK company may decide to present a voluntary Operating and Financial Review (OFR) which includes some or all of the matters required for the Business Review section of the directors' report. Rather than duplicate the information, the company may cross refer from the Business Review section in the directors' report to the relevant information provided in the OFR.
4. The auditor is not required to verify, or report on, the completeness of the information in the directors' report. If, however, the auditor becomes aware that information that is required by law or regulations to be in the directors' report has been omitted the auditor communicates the matter to those charged with governance. This communication includes situations where the required information is presented separately from the directors' report without appropriate cross references.

The Auditor's Procedures

5. **The auditor should read the information in the directors' report and assess whether it is consistent with the financial statements.**
6. Much of the information in the directors' report is likely to be extracted or directly derived from the financial statements and will therefore be directly comparable with them. Some

¹ Relevant legislation includes:

- In Great Britain, with effect for financial years that commence on after 1 April 2005, section 235 of the Companies Act 1985 as amended by "The Companies Act 1985 (Operating and Financial Review and Directors' Report etc.) Regulations 2005" (SI 2005/1011).
- In Northern Ireland, with effect for financial years that commence on after 1 April 2005, Article 243 of the Companies (Northern Ireland) Order 1986 as amended by "The Companies (1986 Order) (Operating and Financial Review and Directors' Report etc.) Regulations (Northern Ireland) 2005" (Statutory Rule 2005 No.61).
- In the Republic of Ireland, Section 15 of the Companies (Amendment) Act 1986.

financial information may, however, be more detailed or prepared on a different basis from that in the financial statements. Where the financial information is more detailed, the auditor agrees the information to the auditor's working papers or the entity's accounting records. Where the financial information has been prepared on a different basis, the auditor considers whether there is adequate disclosure of the differences in the bases of preparation to enable an understanding of the differences in the information, and checks the reconciliation of the information to the financial statements.

7. **If the auditor identifies any inconsistencies between the information in the directors' report and the financial statements the auditor should seek to resolve them.**
8. Inconsistencies include:
- Differences between amounts or narrative appearing in the financial statements and the directors' report.
 - Differences between the bases of preparation of related items appearing in the financial statements and the directors' report, where the figures themselves are not directly comparable and the different bases are not disclosed.
 - Contradictions between figures contained in the financial statements and narrative explanations of those figures in the directors' report.
- The auditor ordinarily seeks to resolve inconsistencies through discussion with management and those charged with governance.
9. **If the auditor is of the opinion that the information in the directors' report is materially inconsistent² with the financial statements, and has been unable to resolve the inconsistency, the auditor should state that opinion and describe the inconsistency in the auditor's report.**
10. **If an amendment is necessary to the financial statements and management and those charged with governance refuse to make the amendment, the auditor should express a qualified or adverse opinion on the financial statements.**
11. The Appendix to this Section includes illustrative wording for the auditor's report. Example A, where the auditor has concluded that information in the directors' report is consistent with the information in the financial statements. Example B, where the auditor has concluded that information in the directors' report is not consistent with the information in the financial statements.

² Materiality is addressed in ISA (UK and Ireland) 320 "Audit Materiality". An inconsistency is "material" if it could influence the economic decisions of users.

Documentation

12. The auditor should document:

- (a) The results of those procedures performed to assess whether the information in the directors' report is consistent with the financial statements, including details of any material inconsistencies identified and how they were resolved; and**
- (b) The conclusion reached as to whether the information in the directors' report is consistent with the financial statements.**

Effective Date

- 13. This Section of this ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 April 2005 and ending on or after 31 March 2006.**

APPENDIX

Illustrative Wording for the Auditor's Report

Example A. Extracts from an auditor's report with an unmodified opinion on the directors' report

Respective responsibilities of directors and auditors

[Details of other responsibilities as are applicable – for examples see the illustrative reports in the APB Bulletin "Auditor's Reports on Financial Statements in Great Britain and Northern Ireland"³]

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. [The information given in the directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the directors' report.⁴]

Basis of audit opinion

.....

Opinion

In our opinion:

- *[Opinion on the financial statements and other opinions, if any, that are required.]*
- The information given in the directors' report is consistent with the financial statements.

³ Illustrative reports for the Republic of Ireland are given in the APB Bulletin "Auditor's Reports on Financial Statements in the Republic of Ireland".

⁴ Include and tailor as necessary to clarify the information covered by the auditor's opinion.

Example B - Extracts from an auditor's report with a modified opinion on the directors' report (financial statements prepared under UK GAAP)

Respective responsibilities of directors and auditors

[Details of other responsibilities as are applicable – for examples see the illustrative reports in the APB Bulletin "Auditor's Reports on Financial Statements in Great Britain and Northern Ireland"³]

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. [The information given in the directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the directors' report.⁴]

Basis of audit opinion

.....

Opinion

In our opinion:

- *[Opinion on the financial statements and other opinions, if any, that are required.]*

Material inconsistency between the financial statements and the directors' report

In our opinion, the information given in the seventh paragraph of the Business Review in the directors' report is not consistent with the financial statements. That paragraph states without amplification that "the company's trading for the period resulted in a 10% increase in profit over the previous period's profit". The profit and loss account, however, shows that the company's profit for the period includes a profit of £Z which did not arise from trading but arose from the disposal of assets of a discontinued operation. Without this profit on the disposal of assets the company would have reported a profit for the year of £Y, representing a reduction in profit of 25% over the previous period's profit on a like for like basis. Except for this matter, in our opinion the information given in the directors' report is consistent with the financial statements.

NOTICE TO READERS

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