Financial Reporting Council

ISA (UK and Ireland) 700 (June 2013) – Clarification Statement

This document sets out a clarification statement issued by the FRC in relation to paragraph 19A of ISA (UK and Ireland) 700 (Revised June 2013) *The Auditor's Report on Financial Statements.*

Background

Paragraph 19A of ISA (UK and Ireland) 700 (Revised June 2013) establishes requirements with respect to the content of auditor's reports of entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not.

An auditor's report for a group may include the auditor's report with respect to both the group and the parent company financial statements. This is typically the case where both sets of financial statements are presented in accordance with IFRS as adopted in the EU. However, the FRC's compendium of auditor's reports (Bulletin 2010/2) notes that, where the financial statements of the group and the parent company are presented in accordance with different financial reporting frameworks, the financial statements might be presented separately within the Annual Report and in such circumstances separate auditor's reports in respect of the group and the parent company financial statements might be provided within the Annual Report.

Issue

With respect to groups, some stakeholders have sought clarification as to whether the requirements of paragraph 19A are intended to apply with respect to the auditor's report(s) on both the group and the parent company financial statements of entities that are within the scope of Paragraph 19A, both when the auditor's reports thereon are combined in a single report and when they are provided separately.

The FRC's intention

The focus of the FRC's intention was that the requirements of paragraph 19A should apply primarily to the auditor's report on the group financial statements. The standard was not, however, written to exclude the application of the requirements to the separate audit of the individual parent company financial statements.

Further analysis

Most of the risks of material misstatement addressed in the audit of the parent company would likely also be risks of material misstatement in the audit of the group financial statements, subject to any differences in quantitative materiality considerations that may apply in those audits. However, the FRC recognises that there may be important risks of material misstatement that only arise in relation to the audit of the parent company financial statements (such as risks relating to investments in subsidiaries that could, for example, have implications for distributable reserves).

An understanding of such risks may be of interest to readers of auditor's reports where such risks have had the greatest effect on the overall audit strategy for the parent company audit. Readers may find such risks to be of particular interest when their implications are relevant in the context of the parent company's reported distributable reserves. However, readers of the auditor's report(s) on the group and parent company financial statements will be assisted by avoiding unnecessary duplication or disaggregation of matters arising from these audits in such report(s).

Application where there is a single auditor's report
Where the auditor's reports on both the group and parent company financial statements are combined within a single report, it may be appropriate for any relevant risks and other information required by paragraph 19A that are unique to the parent company audit to be separately identified but integrated within the disclosures in that report of corresponding matters arising from the audit of the group financial statements.

Application where the auditor reports separately on the group and parent company financial statements
Where the auditor provides separate auditor's reports on the group and parent company financial statements, it may also be appropriate for any relevant risks and other information required by paragraph 19A that are unique to the parent company audit to be separately identified but integrated within the disclosures within the group auditor's report of corresponding matters arising from the group audit. Where this is so, the parent company auditor's report could make reference to this fact in the other matter paragraph that refers to the separate auditor's report on the group financial statements rather than repeating the information.

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