INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 720

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

(Effective for audits of financial statements for periods ending on or after 15 December 2010)

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International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720 Section B, "The Auditor's Statutory Reporting Responsibility in Relation to Directors' Reports" should be read in conjunction with ISA (UK and Ireland) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK and Ireland)."

Introduction

Scope of this Section

1. This Section of International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720 deals with the auditor's statutory reporting responsibility in relation to directors' reports.

2. In the United Kingdom and the Republic of Ireland, legislation[1] 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.

5. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the current versions of the APB Compendia Auditor's Report Bulletins.

Effective Date

6. This Section of ISA (UK and Ireland) 720 is effective for audits of financial statements for periods ending on or after 15 December 2010.

Objective

7. The objective of the auditor is to form an opinion on whether the information given in the directors' report is consistent with the financial statements and to respond appropriately if it is not consistent.

Requirements

Reading the Directors' Report

8. The auditor shall read the information in the directors' report and assess whether it is consistent with the financial statements. (Ref: Para. A1)

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[1] Relevant legislation includes:

- In the UK, Section 496 of the Companies Act 2006
- In the Republic of Ireland, Section 15 of the Companies (Amendment) Act 1986.

Inconsistencies

9. If the auditor identifies any inconsistencies between the information in the directors' report and the financial statements the auditor shall seek to resolve them. (Ref: Para. A2)

10. If the auditor is of the opinion that the information in the directors' report is materially inconsistent[2] with the financial statements, and has been unable to resolve the inconsistency, the auditor shall state that opinion and describe the inconsistency in the auditor's report.

11. If an amendment is necessary to the financial statements and management and those charged with governance refuse to make the amendment, the auditor shall express a qualified or adverse opinion on the financial statements.

Documentation

12. The auditor shall 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.

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Application and Other Explanatory Material

Reading the Directors' Report (Ref: Para. 8)

A1. 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 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.

Inconsistencies (Ref: Para. 9)

A2. Inconsistencies include:

- Differences between amounts or narrative appearing in the financial statements and the directors' report.

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[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.

- 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.

NOTICE TO READERS

THE AUDITING PRACTICES BOARD

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

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' and reporting accountant's 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 APB comprises individuals who are not eligible for appointment as company auditors, as well as those who are so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.