



Financial Reporting Council

October 2012

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# International Standard on Auditing (UK and Ireland) 720

Section A – The auditor’s responsibilities relating  
to other information in documents containing  
audited financial statements

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# INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 720 (REVISED OCTOBER 2012)

## SECTION A – THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods commencing on or after 1 October 2012)

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International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720 Section A, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements” 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 ISA (UK and Ireland)

1. This International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) deals with the auditor’s responsibilities relating to other information in documents containing audited financial statements and the auditor’s report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor’s opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. However, the auditor reads the other information because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. (Ref: Para. A1)
  - 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.
2. In this ISA (UK and Ireland) “documents containing audited financial statements” refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor’s report thereon. This ISA (UK and Ireland) may also be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements, such as those used in securities offerings.<sup>1</sup> (Ref: Para. A2)

### Effective Date

3. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 October 2012.

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<sup>1</sup> See ISA (UK and Ireland) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” paragraph 2.

Paragraph 2 of ISA (UK and Ireland) 200 includes the statement that “ISAs (UK and Ireland) do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the offering of securities to the public. Such responsibilities may differ from those established in the ISAs (UK and Ireland). Accordingly, while the auditor may find aspects of the ISAs (UK and Ireland) helpful in such circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory or professional obligations.” Guidance on other information issued with investment circulars is covered in the FRC’s Statement of Investment Reporting Standard (SIR) 1000. Accordingly, the guidance in this ISA (UK and Ireland) is limited to Annual Reports and statutory audits.

## Objective

4. The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.

## Definitions

5. For purposes of the ISAs (UK and Ireland) the following terms have the meanings attributed below:
  - (a) Other information – Financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon. (Ref: Para. A3-A4)
  - (b) Inconsistency – Other information that 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.
  - (c) Misstatement of fact – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

In the context of an audit conducted in accordance with ISAs (UK and Ireland), other information that is incorrectly stated or presented includes other information that is apparently incorrect based on, or inconsistent with, the knowledge acquired by the auditor in the course of performing the audit or that is otherwise misleading.

## Requirements

### Reading Other Information

6. The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements. (Ref: Para. A4-1 – A4-2)
- 6-1. The auditor shall also read the other information to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit. (Ref: Para. A4-1 – A4-2)

7. The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable<sup>1a</sup>. (Ref: Para. A5)

### **Material Inconsistencies**

8. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.

#### *Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report*

9. If revision of the audited financial statements is necessary and management<sup>1b</sup> refuses to make the revision, the auditor shall modify the opinion in the auditor's report in accordance with ISA (UK and Ireland) 705.<sup>2</sup>
10. If revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,<sup>3</sup> and
  - (a) Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with ISA (UK and Ireland) 706;<sup>4</sup> or
  - (b) Withhold the auditor's report; or
  - (c) Withdraw from the engagements, where withdrawal is possible under applicable law or regulation. (Ref: Para. A6-A7, A11-2 – A11-3)

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<sup>1a</sup> ISA (UK and Ireland) 700 requires that "The auditor shall not sign, and hence 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."

<sup>1b</sup> In the UK and Ireland those charged with governance are responsible for the preparation of the financial statements.

<sup>2</sup> ISA (UK and Ireland) 705, "Modifications to the Opinion in the Independent Auditor's Report."

<sup>3</sup> ISA (UK and Ireland) 260, "Communication with Those Charged with Governance," paragraph 13.

<sup>4</sup> ISA (UK and Ireland) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report," paragraph 8.

*Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report*

**Paragraphs 11 to 13 deal with other information obtained subsequent to the date of the auditor's report. These are not applicable in an audit conducted in accordance with ISAs (UK and Ireland) because ISA (UK and Ireland) 700, "The Auditor's Report on Financial Statements" requires that "The auditor shall not sign, and hence 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."**

11. *If revision of the audited financial statements is necessary, the auditor shall follow the relevant requirements in ISA (UK and Ireland) 560.<sup>5</sup>*
12. *If revision of the other information is necessary and management agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances. (Ref: Para. A8)*
13. *If revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance, unless all of those charged with governance are involved in managing the entity, of the auditor's concern regarding the other information and take any further appropriate action. (Ref: Para. A9)*

**Material Misstatements of Fact**

14. *If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management. (Ref: Para. A10)*

14-1. *If, on reading the other information for the purpose of identifying any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit, the auditor becomes aware of an apparent misstatement of fact, the auditor shall discuss the matter with management. (Ref: Para. A10 – A10-2)*

15. *If, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.*

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<sup>5</sup> ISA (UK and Ireland) 560, "Subsequent Events," paragraphs 10-17.

16. If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify those charged with governance, unless all of those charged with governance are involved in managing the entity, of the auditor's concern regarding the other information and take any further appropriate action. (Ref: Para. A11 – A11-3)

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## **Application and Other Explanatory Material**

### **Scope of this ISA (UK and Ireland)**

*Additional Responsibilities, through Statutory or Other Regulatory Requirements, in Relation to Other Information* (Ref: Para. 1)

- A1. The auditor may have additional responsibilities, through statutory or other regulatory requirements, in relation to other information that are beyond the scope of this ISA (UK and Ireland). For example, some jurisdictions may require the auditor to apply specific procedures to certain of the other information such as required supplementary data or to express an opinion on the reliability of performance indicators described in the other information. Where there are such obligations, the auditor's additional responsibilities are determined by the nature of the engagement and by law, regulation and professional standards. If such other information is omitted or contains deficiencies, the auditor may be required by law or regulation to refer to the matter in the auditor's report.

A1-1. In the UK and Ireland an example of an auditor's additional responsibilities 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 UK Corporate Governance Code specified by the Listing Rules for review by the auditor.

*Documents Containing Audited Financial Statements* (Ref: Para. 2)

### **Considerations Specific to Smaller Entities**

- A2. Unless required by law or regulation, smaller entities are less likely to issue documents containing audited financial statements. However, an example of such a document would be where a legal requirement exists for an accompanying report by those charged with governance. Examples of other information that may be included in a document containing the audited financial statements of a smaller entity are a detailed income statement and a management report.

**Definition of Other Information** (Ref: Para. 5(a))

A3. Other information may comprise, for example:

- 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.
- Selected quarterly data.

A3-1. 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 report<sup>5a</sup>.

A4. For purposes of the ISAs (UK and Ireland), other information does not encompass, for example:

- A press release or a transmittal memorandum, such as a covering letter, accompanying the document containing audited financial statements and the auditor's report thereon.
- Information contained in analyst briefings.
- Information contained on the entity's website.

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<sup>5a</sup> The FRC 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 FRC 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 FRC 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.

**Reading Other Information** (Ref: Para. 6-7)

A4-1. 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 or the knowledge acquired by the auditor in the course of performing the audit.

A4-2. If the auditor believes that the other information contains a material misstatement of fact, is materially inconsistent with the financial statements, or is otherwise 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 A11-1 and A11-2 below and, for entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, the requirements in paragraphs 22A and 22B, and related guidance in paragraph A18A, of ISA (UK and Ireland) 700 (Revised) to report on matters by exception.

A5. Obtaining the other information prior to the date of the auditor's report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis. An agreement with management as to when the other information will be available may be helpful.

A5-1. 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 the UK 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 Section<sup>5b</sup>.

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<sup>5b</sup> In the UK, the Companies Act 2006 enables companies, subject to certain conditions set out in Schedule 5 thereto, to make communications in electronic form, including by means of a website. Further, section 430 of the Companies Act 2006 requires that a quoted company must ensure that its annual accounts and reports are made available on a website.

## **Material Inconsistencies**

*Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report* (Ref: Para. 10)

A6. When management refuses to revise the other information, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel.

A6-1. 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.

### Considerations Specific to Public Sector Entities

A7. In the public sector, withdrawal from the engagement or withholding the auditor's report may not be options. In such cases, the auditor may issue a report to the appropriate statutory body giving details of the inconsistency.

*Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report* (Ref: Para. 12-13)

A8. *When management agrees to revise the other information, the auditor's 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.*

A9. *When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel.*

## **Material Misstatements of Fact** (Ref: Para. 14-16)

A10. When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the other information and management's responses to the auditor's inquiries, and may conclude that valid differences of judgment or opinion exist.

A10-1 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 written representations) and information which is included in the other information.

A10-2. 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 management and those charged with governance in such matters, there may be circumstances in which the auditor is aware that the expressed view of management and 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.

A11. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining advice from the auditor’s legal counsel.

A11-1. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions may also include including in the auditor’s report an Other Matter(s) paragraph describing the material misstatement of fact.

**Further Actions Available to the Auditor when a Material Inconsistency or Material Misstatement of Fact in Other Information is not Corrected**

A11-2. 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 auditor<sup>5c</sup>.

A11-3. 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 apply<sup>5d</sup>. When making a statement in these circumstances, the considerations set out in paragraph A10-2 above would normally be applicable. In addition, in the UK the auditor may need to notify the relevant audit authority.

<sup>5c</sup> The relevant reference for the UK is section 502 of the Companies Act 2006, and for the Republic of Ireland is section 193(5) of the Companies Act 1990.

<sup>5d</sup> The relevant reference for the UK is section 519 of the Companies Act 2006, and for the Republic of Ireland is section 185 of the Companies Act 1990.

## **Electronic Publication of the Auditor’s Report**

### **Introduction**

1. In the UK, section 430 of the Companies Act 2006 requires that a quoted company must ensure that its annual accounts and reports are made available on a website. The Companies Act 2006 also enables all companies, subject to certain conditions set out in Schedule 5 thereto, to make communications in electronic form, including by means of a website.
2. Various types of financial information can be found on websites 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, websites 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 in situations where the annual financial statements accompanied by the auditor’s report are published on an entity’s website<sup>5e</sup>.

## **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 website or, in the UK, 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

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<sup>5e</sup> This guidance is generally applicable both to auditors in the UK (where the provisions of the Companies Act 2006 apply) and the Republic of Ireland (where they do 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.
  - 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 website<sup>5f</sup>. The auditor's report therefore needs to specify in another way the location and description of the information that has been audited.
8. The FRC 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.

### **Identification of the Nationality of the Accounting and Auditing Standards Applied**

10. Auditor's reports on websites 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

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<sup>5f</sup> The audited financial statements can be presented on the website 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.

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 websites 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 website 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 website to another.
12. The auditor gives careful consideration to the use of hyperlinks between the audited financial statements and information contained on the website 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 FRC 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 website 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 website. The method of differentiation would normally also be clearly stated in an introduction page within the website.

15. During the course of the audit, the auditor discusses with 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 website 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.







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