

INTOSAI



Practice Note to ISA 720

The Auditor's Responsibilities Relating

to Other Information in Documents

Containing Audited Financial Statements

INTOSAI



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This Practice Note in combination with the International Standard on Auditing (ISA) 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" issued by the International Federation of Accountants (IFAC) constitute ISSAI 1720.

Practice Note to International Standard on Auditing (ISA) 720 (Revised)

The Auditor's Responsibilities Relating to Other Information

Background

This Practice Note provides supplementary guidance on ISA 720 (Revised) – The Auditor's Responsibilities Relating to Other Information. It is read together with the ISA. ISA 720 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 720 (Revised) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose. The auditor reads and considers the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained during the course of the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Definition of annual report and other information.
 - (b) Withdrawal from the engagement.

Applicability of the ISA in Public Sector Auditing

- P2. ISA 720 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

- P3. ISA720 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A47 of the ISA.

Definition of Annual Report and Other Information

P4. ISA 720 (Revised) provides, in paragraph A1 to A4, the following guidance on what constitutes an annual report:

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.

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.

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.*

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.

In compliance with law, regulation or custom, public sector entities may also publish annually further reports such as annual activity reports or documents reporting on the sustainability of their finances or activities.

Public sector auditors should obtain an understanding of the scope, contents, purposes and intended addressees of any documents published annually by the auditee (whether on traditional media or electronically). On the basis of this understanding, public sector auditors should identify, in liaison with management, the entity's annual report(s).

Public sector auditors should consider whether it is necessary to issue guidance within their organisation to ensure that the identification of entity annual reports is performed on a consistent basis across all of the audited entities.

Other information is defined as financial or non-financial information (other than financial statements and the auditor's report thereon) **included in** an entity's annual report.

Withdrawal from the Engagement

- P5. When circumstances surrounding a refusal to correct a material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit, withdrawal from the engagement may be appropriate.

Paragraph A47 of the ISA provides that where withdrawal from an engagement is not possible in the public sector, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions. Other appropriate actions may include reporting another matter paragraph highlighting management's refusal to correct material misstatements of the other information. Alternatively, the auditor may also conclude that a disclaimer of opinion on the financial statements is the appropriate response in the circumstances. More than one action may be necessary depending on the circumstances encountered.