



CONSISTENCY OF INFORMATION IN ANNUAL REPORTS AN ISA 720 PERSPECTIVE

Auditors have for many years been required to read other information included in documents containing the audited financial statements. So what will change in future under International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*?

By **Leon Kies**

I thought, when I stumbled across the words on the internet. My mind raced as I tried to think about the circumstances that could have given rise to these words. Unfortunately I was not able to identify the epigrammist, or the background to the wisdom, but it certainly made me think about ISA 720 (Revised).

The aim of requiring auditors to read 'other information' has always been to identify material inconsistencies between the other information and the financial statements, which could undermine the credibility of the financial statements and that of the auditors' reports.

During April 2015 the International Auditing and Assurance Standards Board (IAASB) released ISA 720

(Revised). One of the aims of the IAASB's revision of the standard is to improve audit quality by bringing greater consistency around the world regarding auditors' consideration of the diverse range of other information encountered in today's financial reporting environment (IAASB, 2015). Looking back at the quote that has gripped my imagination, it would appear the IAASB is trying to reduce the risk of a lack of interest in the audit and in auditors' reports that may result from inconsistency in practice.

ISA 720 (Revised) is effective for all ISA audits of financial statements for periods ending on or after 15 December 2016,¹ which is the same as that of the IAASB's suite of new and revised auditor reporting standards. The new and revised standards are a move towards making audit reports more informative, discursive, bespoke and insightful for its users, and ISA 720 (Revised) has a big role to play in this regard.

ISA 720 (Revised) requires the auditor to read 'other information' (as defined in the standard) to consider whether there is a material inconsistency between the other information and the financial statements, and between the other information and the auditor's knowledge obtained in the audit. As a basis for the consideration of whether there is a material inconsistency between the other information and the financial statements, the auditor is required to compare selected amounts or other items in the other information with such amounts or other items in the financial statements.² The standard also requires the auditor to respond appropriately when material inconsistencies appear to exist, or when the other information appears to be materially misstated.³ A new requirement of the standard is for the auditor to describe his/her responsibilities under ISA 720 (Revised) in the audit report, and to state the outcome of his/her work relative to the other information.⁴

Similar to the situation under the current standard, the auditor's work on other information applies regardless of whether the other information is obtained before or after the date of the audit report.

In order to satisfy the requirements of ISA 720 (Revised) it is vital to understand the definitions of 'other information' and 'annual report', as contained in the standard:

- 'Other information' is 'financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report';⁵
- 'Annual report' is 'a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom; the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and

the entity's financial results and financial statements as set out in the report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.⁶

A read of these definitions raises the question as to what constitutes the annual report in the South African context, and in particular for companies listed on the Johannesburg Stock Exchange. This is in light of the fact that the reporting practices of listed companies are quite diverse. As examples:

- Some companies title their reports 'integrated reports', while others refer to 'integrated annual reports' or 'annual reports';
- Some companies include the full annual financial statements in their integrated or annual report, while others only present summaries of those annual financial statements.
- Some companies issue their integrated or annual reports at the same time as their results announcements, while other companies' integrated or annual reports only follow later on.
- Some companies issue a single document, while others issue two or more documents comprising the companies' annual reporting to stakeholders.

Because of these different reporting scenarios that can be encountered, it is not inconceivable that auditors, regulators and the users of the auditors' reports may have different views and interpretations about which of the companies' reported information constitutes the ISA 720 (Revised) 'other information' in the specific client circumstances. Could

this lead to inconsistency in practice and a widening of the expectation gap about the nature and extent of the auditor's work?

As we prepare for the implementation of ISA 720 (Revised) auditors, regulators and other stakeholders of the auditors' reports will have to carefully consider the implications of the standard in the South African context, recognising that the auditor's professional judgement in the application of the auditing standards is a fundamental and essential part of every audit. Major inconsistencies in how auditors apply the requirements of the standard, as well as misunderstandings by users of audit reports about the nature and scope of the work performed by the auditors, would obviously not be in the public interest and must be avoided. Let's heed the warning of the anonymous philosopher who claimed that a lack of consistency can bring on a lack of interest. A lack of interest in audits and auditors' reports will not be consistent with what the enhanced auditor reporting model aims to achieve.

NOTES

- ISA 720 (Revised), paragraph 10.
- ISA 720 (Revised), paragraph 14.
- ISA 720 (Revised), paragraph 16.
- ISA 720 (Revised), paragraphs 22(d) and 22(e).
- ISA 720 (Revised), paragraph 12(c).
- ISA 720 (Revised), paragraph 12(a).

REFERENCES

International Auditing and Assurance Standards Board: *The International Standard on Auditing (ISA) 720 (Revised), The Auditor's Responsibilities Relating to Other Information*, IAASB, 2015.

International Auditing and Assurance Standards Board: *At a Glance – ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information*, IAASB, 2015.

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