



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

10 April, 2007

Our ref: ICAEW Rep 25/07

Mr Jon Grant
The Auditing Practices Board Limited
5th Floor
Aldwych House
71 – 91 Aldwych
London WC2B 4HN

By email

Dear Mr Grant

***Proposed ISRE (UK and Ireland) 2410 Review of Interim Financial Information
Performed by the Independent Auditor of the Entity***

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Proposed ISRE (UK and Ireland) 2410 published by APB in January 2007.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.


We support the APB's proposal to provide up-to-date guidance on the review of interim financial information. We also support the international harmonisation of auditing and assurance standards. We note the extensive proposed modifications to ISRE (UK and Ireland) 2410, including what might be construed as an 'ISRE minus'. However, ISRE 2410 (UK and Ireland) is not part of the main corpus of ISAs to be adopted at European level and a greater level of flexibility is therefore acceptable.

We suggest below that a number of the proposed 'pluses' are unnecessary and should be eliminated. We agree with the substance of the proposed circumscription of paragraph 25 (accounting records and group financial statements) by paragraph 25-1, as a practical solution to what would otherwise be a difficult expectation to meet, despite the fact that it could be construed as an ISRE minus. To date, APB has proposed no minuses to auditing or other standards and whilst we support the adoption of ISRE 2410 (UK and Ireland) in the interests on international harmonisation, minuses should only be used in exceptional circumstances.

We note below that the proposed implementation date is too early however, APB should make it clear that early adoption of this ISRE is permitted.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'K E Bagshaw', followed by a long horizontal flourish.

Katharine E Bagshaw FCA
Manager, Auditing Standards
ICAEW Audit and Assurance Faculty
T+ 44 (0)20 7920 8708
F + 44 (0)20 7920 8708
E: kbagshaw@icaew.com

Answers to APB Questions

1. *Do you agree that there is benefit in the APB replacing Bulletin 1999/4 by this proposed ISRE (UK and Ireland) 2410? If not, why not?*

Yes. Auditors need up-to-date guidance on the review of interim financial information and we support the international harmonisation of auditing and assurance standards. Nevertheless, we are concerned by the extent of the proposed modifications to ISRE 2410 as outlined below.

Almost all of our detailed comments below deal with areas which require additional wording to deal with UK legal or regulatory requirements. We make suggestions as to the necessary wording.

Auditors are increasingly being asked to review the interim statements of companies listed on AIM. It would be helpful if APB's guidance dealt explicitly with such entities in addition to entities listed on the main market.

2. *Do you support the addition of the proposed APB supplementary guidance? If not why not?*

Not in the following cases:

Paragraph 15: the first set of additions are covered by the preceding bullet

Paragraph 21: the first addition is covered by the fourth bullet of the same paragraph and is unnecessarily detailed

Paragraph 33-1 which is covered by paragraph 33.

3. *Do you support the APB's interpretation and clarification of the requirement in paragraph 25, as set out in paragraph 25.1 and described above, concerning the agreement of consolidated group interim financial information to underlying accounting records? If not, do you believe the auditor should be required to trace the interim financial information – either to increase or decrease the number of review engagements? If yes, why?*

Yes. We support the substance of paragraph 25-1. The auditor is reviewing, not auditing, the interim financial information and this clarification helps manage expectations of auditors. The additional workload that would be required were the extent of check-back not circumscribed in this way would be disproportionate in the context of a review engagement. As explained above however, it is possible to construe paragraph 25-1 as an ISRE minus and minuses should only be used in exceptional circumstances.

4. *Do you consider that the implementation of this ISRE (UK and Ireland) is likely to result in a change in entities' decisions whether to ask auditors to review and report on interim financial information – either to decrease or increase the number of review engagements? If yes, why?*

No. Market and peer pressure are the most likely reasons for entities to change their current practices.

5. *Do you agree with the APB's view that the introduction of ISRE (UK and Ireland) 2410 will not result in a significant increase in the amount of work performed by*

the auditor and therefore the costs to review interim financial information? If not, why?

We have not enquired as to views on costs. Paragraph 25-1 may help to contain costs.

6. *Do you support the proposed implementation date?*

No. It seems unlikely that the final version of ISRE (UK and Ireland) 2410 will be issued in time for auditors to incorporate it into their training and documentation for half years beginning after 20 January 2007, which for some clients will be half years ending on 31 July 2007. This will do nothing to improve either quality or consistency of performance. To allow for a proper transition, we suggest the standard, if adopted, should be effective for periods beginning on or after 15 December 2007. However, we are aware that a number of firms adopt IAASB's implementation dates within their global methodologies and such firms may wish to adopt this ISRE early. APB should make it clear that early adoption of this ISRE is permitted.

Detailed comments

1. Paragraph 3 and footnote 1a lead some practitioners to an impasse. The guidance in Bulletin 1999/4 paragraphs 20 and 21 for auditors who have not audited the preceding financial statements is helpful.
2. Paragraph 21 would be improved by a plus to the effect that, for the auditor to be able to determine that the interims have been prepared in accordance with the applicable financial reporting framework:

...the interim report must be prepared using the accounting policies adopted by the company in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as the result of new or changed IFRSs that are already endorsed by the EU and that are applicable or available for early adoption for the next annual financial statements. Endorsement by the EU here means endorsed by the date the Board approved the interim report. The Board cannot take into account any further endorsements that they expect will occur by the date of approval of the forthcoming annual consolidated financial statements.

3. Paragraph 21 should also cover:
 - the need to consider the applicability of new accounting standards or interpretations;
 - checking that the interim report includes a s240 CA 1985 statement.
4. The final sentence of paragraph 25-1 should read:

The auditor is not required to check the financial information back to the accounting records of individual group components such as *the parent company, its subsidiaries or the financial information relating to subsidiaries in the consolidation schedules.*

This paragraph might also usefully refer to joint ventures and associates.

5. Paragraph 27-1 implies that directors need consider only the continuing relevance of matters relevant to going concern identified at the last year end. Clearly, they must consider also new factors arising since then; this paragraph should clarify that by adding as a final sentence:

They should also consider whether there are any new factors that might affect the position.

6. It would be useful to include the guidance from Bulletin 1994/4 on modifying a report if comparatives have not been reviewed in paragraph 29-1, and to indicate where the relevant references should be made.
7. The following text should be added at the beginning of paragraph 37-1:

The auditor does not qualify or modify the review report on the financial information itself if the auditor considers that the additional information is in conflict with the matters covered by the review report or believes it to be misleading. Therefore the auditor allows...

8. UK paragraphs need adding at the end of the paragraphs commencing, *This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of March 31, 20X1...*, in Appendix 3, because they are related to the IAASB opinion in Appendix 4, and not to the opinion which a UK or Irish auditor will give under Appendix 8.
9. Appendix 3. The Bulletin 1999/4 illustrative representation letter includes reference to going concern. A review consists in large part of enquiries of management and it seems likely that more representations, rather than less, will be appropriate. This representation should therefore be included.
10. Appendix 8 and paragraph 43. The proposals depart from the ISRE proformas by inserting 'responsibilities' sections in the auditors' reports in Appendix 8, but Appendix 9 makes it clear that interim reports themselves must include responsibility statements. Paragraph 43 of the ISRE requires the auditors' report to contain statements about the responsibilities of management and the auditors. APB should consider a UK plus to paragraph 43 permitting auditors to cross-refer to the responsibility statement in the interim report or to include such a statement in their report if it is not included elsewhere.
11. Appendix 8, 'our responsibility' section. If this retained, the words '*and to report our conclusion to the Company*' should be added.
12. Appendix 8 usefully gives IFRS example review reports. It would also be helpful to give a UK GAAP example.
13. In the box on the inside cover, APB includes a list of areas where it issues guidance. This list should include ISREs (UK and Ireland).

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Email: Katharine.bagshaw@icaew.com