



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

28 November 2008

Our ref: ICAEW Rep 134/08

Your ref:

Steven Leonard  
Auditing Practices Board  
5<sup>th</sup> Floor, Aldwych House  
71 – 91 Aldwych  
London WC2B 4HN

By email

Dear Steve

**ISA (UK & I) 700 (Revised) The auditor's report on financial statements**

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the ISA (UK & I) 700 (revised) *The auditor's report on financial statements*.

Our comments with responses to your questions are attached.

If you have any detailed questions in relation to the response, please do not hesitate to contact me.

Yours sincerely

Sumita Shah  
Manager  
Audit and Assurance Faculty  
T +44 (0)20 7920 8516  
E [sumita.shah@icaew.com](mailto:sumita.shah@icaew.com)



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## **ICAEW Representation**

**ICAEW REP 134/08**

**ISA (UK & I) 700 (REVISED) – THE AUDITOR’S REPORT ON FINANCIAL STATEMENTS EXPOSURE DRAFT**

**Memorandum of comment submitted in November 2008 by The Institute of Chartered Accountants in England and Wales, in response to the Auditing Practices Board’s ISA (UK & I) 700 (revised) *The auditor’s report on financial statements* published in September 2008**

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## **INTRODUCTION**

1. The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the ISA (UK & I) 700 (revised) *The auditor's report on financial statements*.

## **WHO WE ARE**

2. 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 130,000 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.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

## **MAJOR POINTS**

4. We welcome the process that the APB has started in relation to the overall debate around audit reports and that it recognises the importance of influencing the international agenda. We are pleased to contribute to the APB's process.
5. The APB, in revising ISA (UK & I) 700, has made some valuable changes and the consultation paper includes some innovative solutions. Overall the Institute agrees that considering solutions in the short, medium and long term is appealing.
6. In our view, the APB should, in the short term, only include the minimum changes as required by the Companies Act 2006 and then, in the longer term, seek to lead the debate and influence the international agenda, rather than seek to make changes outside of the EU and ISA process.
7. In the medium term, although we agree that there are benefits attached to having a shorter audit report, in our view, more research needs to be carried out as to how this might be done and the potential impact. We offer further thoughts on this in paragraph 10 to this response. We are also supportive of the move to a two-part report. This will help to achieve international consistency in audit reports.
8. We do have reservations regarding the use of the APB website to communicate the responsibilities of auditors. Currently the audit report refers to the statement of scope and the auditors' responsibilities in some detail, and to the basis of preparation. The proposal for this information to be held on the APB website is an innovative idea and would result in a new way of working, however, in our view there are serious practical concerns around this proposal that need to be considered.

9. Clarity regarding the key responsibilities of auditors is the strongest where these are succinctly written in a prominent position within the audit report (rather than in a remote location); helping to prevent them being overlooked by readers. This is generally considered to be desirable. In our view, moving this information away from the audit report to a website location would risk making it less accessible (especially for those users who do not have access to the internet) and could serve to widen the expectations gap which the APB acknowledged in its consultation paper, *The Auditor's report: A time for change?* In our view, there will also be practical difficulties in maintaining this information on the APB's website for all the relevant entities that exist. These are detailed further in our response to question 4.
10. We also continue to believe that the expectations gap continues to be an important consideration for the financial reporting process as a whole, and not just in relation to the audit report. In our response to the consultation paper, we suggested that the APB should also seek to address this expectations gap in ways perhaps more effective than considering the audit report alone. In particular, we suggested that the APB could carry out some wider research to consider and analyse why this expectations gap still exists. Our view is that it might be more helpful to consider the following:
- users' understanding the preparation process behind the accounting statements of an organisation;
  - the responsibilities and duties of the directors/shareholders in relation to the accounting statements;
  - what the statutory audit is designed to do;
  - the auditors responsibilities in relation to the statutory audit and the accounting statements;
  - the audit process; and
  - finally the audit report.
11. If, however, the APB is keen to progress its proposals on moving the statement of responsibilities elsewhere other than in the audit report, then we would urge the APB to consider alternatives. For example, it could be placed in a prominent position within the overall statement of accounts together with the directors' responsibility statement. This would have the effect of clarifying, in one place, the responsibilities of both the directors and the auditors. It would also mean that the information was relatively accessible and close to the audit report and users would not have to hunt for it in another place.

## **APB discussion questions on specific issues**

**2. Do commentators support APB's proposal of describing the auditor's responsibilities and the work an auditor typically performs by either:**

**(a) cross referring to standard paragraphs maintained by the APB on its website; or**

**(b) including a description in the auditor's report itself?**

*Although an innovative approach, in our view, given the option many firms will follow their internal risk management policies and continue to produce information in relation to the auditors' responsibilities in a prominent position within the audit report. We acknowledge that the proposed requirement is to either cross refer to the statement on the APB's web site, or include a description within the auditor's report and therefore firms will have the choice, however, this will result in inconsistency in audit reports, depending on which option the auditor selects.*

*Having the information elsewhere other than in the audit report will risk increasing the expectations gap as users of audit reports may overlook these responsibilities if the information is elsewhere. Our view is that it would not be in the public interest to refer users of audit reports to another website and ask them to hunt for the relevant information. We do not think that this move would be a valuable contribution in aiding a user's understanding of the financial statements of a company and the accompanying audit report.*

*The APB must accept that clarity about the auditor's role and responsibilities is beneficial to all relevant parties. In our view, the actual impact of the APB's proposals could, quite possibly, have precisely the opposite effect of what it intends. At the moment, anyone reading an audit report is provided with a summary. The APB is working on the assumption that if its proposal is implemented, then audit reports would get shorter, whilst the explanations provided on the APB website will be more detailed than the current paragraphs that are included in audit reports. However, as stated above, we believe auditors are likely to continue to provide a summary of matters in their audit report.*

*If the APB is keen to make such a change to the audit report, then it should consider alternatives ways in which its proposal could be met. For example, perhaps the auditors' responsibilities could be placed with the directors' responsibility statement within the main statement of accounts, this would have the effect of clarifying, in one place, the responsibilities of both the directors and the auditors. It would also mean that the information was relatively accessible and close to the audit report and users would not have to hunt for it in another place.*

**3. On pages 41 and 42 the APB sets out a schedule of the range of example statements that it presently intends to post to its website. Are there any other examples that you believe it is imperative the APB should post to its website?**

*We do not agree with this approach and our view is that it will be difficult for the APB to maintain information for all relevant entities on its website, and it would most likely be confusing for the users.*

**4. In addition to the need for the APB to develop and maintain current examples relating to a number of different types of entity, what other practical difficulties do you think might arise from the APB's proposed approach?**

*There are a number of practical issues that the APB needs to consider in relation to its proposed approach. What is the scale of information that the APB would be required to maintain and for how long should the information be retained on a website. Would the APB retain only the most current information or would it have archives of information that had been superseded, but which may nevertheless be relevant to previous years? How would a user obtain information that spanned a number of years especially where there had been changes. Currently, company information within the UK is retained for a period of six years. Would the APB envisage maintaining information on its website for the same period?*

*If the website idea is progressed, then in the future a user may be faced with approximately 30 or more versions of words explaining auditors' responsibilities. This may only serve to confuse users more. We question therefore whether this would provide the clarity on auditor responsibilities that the APB is seeking to achieve?*

**5. Is the wording of para. 18 in the ED of the proposed ISA (UK & I) 700 sufficiently generic to apply to all entities that are required to be audited?**

*The sentiment of paragraph 18 is valid, but it may need to reflect other sectors such as the public sector context.*

**6. Do you agree that it is logical for the reference to the "true and fair view" to be the final element in the auditor's report on the financial statements? If you disagree what would be your preference for ordering the elements?**

*Although we do not consider this to be an area of contention, in our view, the logical layout would be to follow the requirements of the Companies Act 2006.*

**7. Please provide any comments that you may have on the steps set out concerning the APB's proposed course of action and the timing of those steps? Are there any other actions that you believe the APB should be taking?**

*Any move towards the inclusion in audit reports of any reference to prospective information which might be published with the financial statements should be disregarded.*

*As set out in the body of our letter, we do not believe that the APB should, at this time, be making changes to ISA (UK & I) 700 other than those required for changes to the Companies Act 2006. For the reasons set out in response to Question 2 we are not supportive of the APB's proposal to post the "Statements of the scope of an audit and the auditor's responsibilities" on the APB web site and to allow cross reference from the auditor's report.*

Email: [sumita.shah@icaew.com](mailto:sumita.shah@icaew.com)

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