

16 August 2007

Our ref: ICAEW Rep 72/07

Mr Jim Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

By email

Dear Mr Sylph

Proposed Revised and Redrafted ISA 200 Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Proposed Revised and Redrafted ISA 200 published by IAASB in April 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 believe that the revisions and clarification reformatting have resulted in a more readable and user-friendly document than previous versions. However, changes to the definitions and requirements will help ensure consistency of interpretation and improved audit quality, as explained below.

We are concerned that the mapping documentation supporting this exposure draft does not provide a clear link between the extant ISA and the exposure draft. Such mapping is important in supporting the transparency of the clarity process.

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

Yours sincerely

Katharine E Bagshaw FCA
Manager, Auditing Standards
ICAEW Audit and Assurance Faculty
T+ 44 (0)20 7920 8708
F + 44 (0)20 7920 8708

Definition of reasonable assurance

We agree with the point made in the Explanatory Memorandum that any significant amendment to the discussion of reasonable assurance is beyond the scope of the clarity project. However, we are concerned that the definition of 'high, but not absolute, assurance' is insufficiently clear and that there is no further explanation within the application material.

'High' is a relative term which needs to be considered in the context of the inherent limitations of the audit so that readers are better able to understand why only 'reasonable assurance' is obtained. What would be judged to be a 'high' level of assurance taking account of the time and cost limitations of an audit might be quite different to the judgement made were there no such limitations. The definition can be improved by amending it to '...a high level of assurance, subject to the inherent limitations of an audit'. To reinforce the point, the Introduction section of the ISA should expand on the inherent limitations of the audit. These are referred to in the application material (paragraphs A28-40), but there would be significant benefit in including a summary of the key limitations in the Introductory section referring to, for example, the nature of audit evidence and the time and cost limitations of an audit. Such a paragraph could usefully be positioned after existing paragraph 12.

Documentation of failures to meet objectives

We agree that matters of such significance that an objective would not be met would generally be documented in the working papers as significant matters. However, requiring auditors to relate these matters to specific ISA objectives, or to consider separately whether there has been a failure to achieve a specific objective, will not improve audit quality and risks generating a compliance culture among auditors, rather than auditors focusing on using their professional judgment. Instead, what is important is for auditors to consider carefully whether a significant matter affects the audit opinion.

It is equally important that auditors are not required to document that individual ISA objectives have been achieved. The structure of audit files is not determined by these individual objectives and a requirement to document achievement of objectives is likely to result in the use of separate checklists, pushing auditors further towards a compliance culture.

Differentiating between the objective of the audit and the objective of the auditor

The distinction made between the objective of the audit and the objective of the auditor in paragraphs 4 and 5 is narrow and unhelpful because both refer to reporting by the auditor. The ISA should refer only to the objective of the independent auditor as follows:

'The overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.'

Other matters

Paragraph 4

Footnote 2 to this paragraph notes that the form of the opinion depends on the reporting framework and law and regulation, and refers to 'true and fair' and 'presents fairly in all material respects'. It is important that the equivalence of these terms is recognised. Recognition should be included within the main text of the ISA which could be achieved by including the substance of footnote 2 in application material linked to paragraph 4.

Paragraph 8 (c)

We agree that it is appropriate to include the premises upon which an audit is conducted. However, it is unrealistic to include an absolute statement that audits are conducted on the premise that management will provide complete information to the auditor. This should be qualified with words such as 'to the best of our knowledge and belief'. There should also be a reference to 'explanations' as well as 'information'. Paragraph 8 (c) should be revised to read: '...will provide, to the best of their knowledge and belief, complete information and explanations to the auditor.'

Paragraph 28

References in this paragraph to, 'achieve the aim of that requirement' do not make sense, and should be deleted in both the first and second sentences. For example, it is sufficient to say: 'In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement.'

Paragraph 29

The requirement to consider the entire text of the ISA is addressed in paragraph 21. Paragraph 29 should therefore be deleted.

Paragraph A25

The final sentence in this paragraph should clarify that the auditor's judgment is based only on what was known (or ought to have been known) at the time the judgment was made and not based on hindsight. The sentence should be amended to: '...whether a judgment is reasonable is based on the facts and circumstances that could reasonably be expected to have been known at the time the judgment was made.'

Paragraph A26

In the final sentence, replace 'faulty' with 'inappropriate'.

Special considerations in the audit of small entities

We have no comments specific to the audit of small entities.

Special considerations in the audit of public sector entities

We have no comments specific to the audit of public sector entities.