

30 November 2007

Our ref: ICAEW Rep 117/07

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

By email

Dear Mr Sylph

**PROPOSED REDRAFTED ISA 700 *THE INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS***

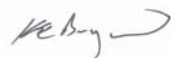
The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on proposed ISA 700 published by IAASB in July 2007.

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 clarification reformatting has resulted in a more readable and user-friendly document than previous versions. However, changes to the objective and requirements will help ensure consistency of interpretation and improved audit quality, as explained below.**

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

Yours sincerely



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## **Objective**

*Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?*

**Yes.**

## **Requirements**

*Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?*

### **Not in the following cases:**

#### *Management representations*

1. Management are not necessarily required by local law or custom to maintain internal control systems that are relevant to the preparation and presentation of the financial statements. Requirements for the public declaration of these responsibilities have led to much anguish in the fall-out from Sarbanes-Oxley. The acknowledgement of internal control responsibilities in redrafted ISA 580, is a private letter to the auditors and is different to a public declaration.

We do not believe, therefore, that the requirement for the auditor to state management's responsibilities for the financial statements should be outlined in such detail in the audit report or in the standard itself. The audit report need only state that management are responsible for the financial statements; the detail in the standard could be moved to an appendix as a description of what management's responsibilities normally encompass.

#### *Other matters and other reporting responsibilities*

2. Other matters and other reporting responsibilities are dealt with in paragraphs 34 and A35 - 39 of this ISA 700 and in paragraphs 4, 9, and A6 - 8 of ISA 706. This ISA explains that 'other matters' which are included in the 'main' audit report are those providing further explanation of the auditor's responsibilities, either legal or voluntary, such as the UK requirement to report on books and records. 'Other reporting responsibilities' are in another section of the report, outside the 'main' report. Reporting on books and records, for example, is referred to in the application material as being 'other reporting responsibilities'. It is difficult to see how this type of issue differs from 'other matters' as described in paragraph 34 ('further explanation of the auditor's responsibilities').

ISA 700 cross refers to ISA 706 regarding 'other matters'. A6 - A8 in ISA 706 have been changed in substance from extant 17. A6 was originally an item in its own right (elaboration on matters regarding the auditor's responsibilities) among other examples of 'other matters' such as ISA 720 inconsistency reports, and might well have been construed as covering books and records. It has been taken out of this context and set up as a generic heading and now refers to the remaining examples in the list from which it was drawn. A8, dealing with 'other

reporting responsibilities', refers back to ISA 700. It will prove impossible in practice to distinguish between other matters and other reporting responsibilities and the distinction needs to be clarified (books and records can fall under both) or eliminated.

### *Presentation*

3. The standard presents the phrases 'true and fair view' and 'presents fairly' as equivalent and differentiates between fair presentation frameworks and compliance frameworks. The result is an inadvertent emphasis on presentation in several places. 'Presentation' of the financial statements is given equal weight to 'preparation' in paragraphs 23 and 28. Presentation is often dictated by law or accounting standards, for example IAS 1. However, a 'true and fair view' encompasses presentation within its meaning. Presentation is one factor among many, albeit an important one and is thereby given disproportionate significance compared to other factors such as the integrity of the assertions and amounts. Paragraph 23 should be redrafted to refer to, '... the preparation of financial statements that give a true and fair view ...'. Paragraph 28 should similarly omit presentation when describing the 'true and fair view'.
4. There is a difference between a 'true and fair view, in accordance with ...' (paragraph 13), and a 'true and fair view in accordance with ...' (paragraph 31). The omitted comma in paragraph 31 changes the meaning and should be reinstated.

### **Answers to IAASB's Specific Questions**

1. We agree with the proposal to limit the scope of proposed ISA 450 to the evaluation of the effect of uncorrected misstatements.
2. Paragraphs A9 - A11 and A33 need to be conformed with paragraph 14 of the IASB ED *Amendments to IAS 1* which explicitly states that companies are not required to quantify the difference between financial statements prepared in accordance with IFRSs, and modified IFRSs.
3. The paragraphs in the appendix on the references to IFRSs are reasonably clear, other than paragraph A33(b). If there is adequate disclosure of the differences between the framework used and IFRS, there should be no emphasis of matter paragraph. Such a requirement assumes that IFRS without modification is the superior framework. However, provided the national or regional framework is properly described, there should be no requirement for reference to the matter in the auditor's report.
4. We agree with the addition of the explanatory paragraphs covering the guidance in IAPS 1014.