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Dear Mr Leonard

ISA (UK AND IRELAND) 700 THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Audit Commission welcomes the opportunity to comment on the APB Exposure Draft.

Background

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone. Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies. As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people. Our audit practice is the fifth largest in the UK.

The Audit Commission's Response

The Audit Commission welcomes the redrafted standard. Our response to the specific questions in the invitation to comment is set out below.

Question 1 – The APB invites comments on:

(a) the proposed ISA (UK and Ireland) 700 (Revised) on pages 15 to 31;

The Audit Commission considers that the proposed ISA (UK and Ireland) 700 (Revised) is appropriate.

(b) the proposed “Statement of the scope of an audit and the auditor’s responsibilities in respect of a publicly traded company incorporated in the United Kingdom”, on pages 33 to 39, which it is intended would be posted to the APB’s web site;

The Audit Commission agrees that the proposed wording is appropriate, but suggests that the proposed statement would benefit by including an explanation of materiality, as this is a fundamental audit concept.

In considering the application of the proposed statement to the public sector, the Audit Commission considers that the proposed wording is appropriate with the exception of last sentence under the reasonable assurance section on page 35. “Internal Control is not considered for the purpose of expressing an opinion on the effectiveness of the company’s internal control”. In the public sector the auditor gives negative assurance on management’s statement on internal control. The Audit Commission suggests the following alternative wording for this sentence:

The auditor has no responsibility for expressing an opinion on the effectiveness of the audited body’s internal control.

(c) the example auditor’s reports on pages 11 to 14.

As the Audit Commission does not undertake the audit of any publicly traded companies, we do not consider it appropriate to comment on this question.

Question 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 web site; or
(b) including a description in the auditor’s report itself?**

The Audit Commission considers the inclusion of options to be an improvement on Clarity ISA 700 and in principle supports the streamlining of the auditor’s report. However due to the practical difficulties highlighted in our response to question 4 below, the Audit Commission recommends a third option, for auditors to link to standard paragraphs maintained on their own websites or in the statement of auditors’ responsibilities in the financial statements.

Question 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 web site. Are there any other examples that you believe it is imperative the APB should post to its web-site?

The Audit Commission believe that in addition to the list included on pages 41 and 42, the APB should include the following in its United Kingdom Public Sector examples:

- Local Government Pension Schemes
- NHS Foundation Trusts
- Probation Boards

Question 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?

The Exposure Draft is rooted in the Companies Act framework. If the Audit Commission wished to link to the APB website statement, the Audit Commission would also need to link to its own website or further documents that explain auditors’ responsibilities as rooted in our Codes of Audit Practice under the Audit Commission Act and the Accounts and Audit Regulations.

The Audit Commission is concerned as to whether readers of a set of audited financial statements would uniformly have access to websites and this would weaken the transparency of the auditor’s report. However this issue could be overcome by either:

- making documents available on request; or
- including the scope of an audit within the statement of auditors’ responsibilities in the financial statements

Question 5 – Is the wording of paragraph 18 in the Exposure Draft of the proposed ISA (UK and Ireland) 700 (revised) sufficiently generic to apply to all entities that are required to be audited? (In this regard more detail concerning the legal framework applicable to a particular type of entity will be provided in the applicable example “Statement of the scope of an audit and the auditor’s responsibilities”). If not please describe any concerns?

The Audit Commission is of the opinion that paragraph 18 in the Exposure Draft of the proposed ISA (UK and Ireland) 700 (revised) is sufficiently generic to apply to all entities that are required to be audited.

Question 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 opinion on the financial statements? If you disagree what would be your preference for ordering the elements?”

The Audit Commission agree that it is logical for the reference to the “true and fair view” to be the final element in the auditor’s opinion on the financial statements. However for a number of specified bodies within the public sector there is a fourth element to the auditor’s opinion relating the regularity of transactions. For these specified bodies the regularity part of the opinion would be the final element in this section of the auditor’s report.

Question 7 – Please provide any comments that you may have on the steps set out concerning the APB’s proposed course of action and the proposed timing of those steps (see pages 5 and 6)? Are there any other actions that you believe the APB should be taking?

The Audit Commission believes the APB’s proposed course of action and timing is appropriate.

Yours sincerely

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Head of Audit Practice