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By email to s.leonard@frc-apb.org.uk

Dear Mr Leonard

ED ISA (UK & Ireland) 700 'The Auditor's Report on Financial Statements'

CIPFA is pleased to comment on this exposure draft, which has been reviewed by the Accounting and Auditing Standards Panel.

General Comment

The exposure draft provides a number of proposals which aim to improve understanding, both of the auditor's report and ISA 700 (UK & Ireland). We are supportive of most of the proposals, but we have concerns on two matters, as detailed below.

Description of Auditor Responsibilities

As we noted in our earlier response to the APB paper 'The Auditor's Report: A Time for Change?', in developing an improved report, care needs to be taken to ensure that the overall reporting package caters for the legitimate and reasonable needs and expectations of a wide range of stakeholders, including some stakeholders who will not otherwise have a sufficient understanding of the nature of audit. This potentially includes stakeholders who cannot, or in practice will not, look beyond the information provided in the main financial reporting package.

We would agree that there is considerable scope for using webpages and online publication to provide *additional* explanation of the scope of audit work and auditors responsibilities. Indeed, we mainly see online publication as improving access and accountability. However, we remain concerned that the proposal to allow substantive description of audit to be moved away from the financial statements might lead to a lower level of stakeholder understanding and engagement, at least in the short term.

Furthermore, we see considerable practical problems in applying the 'example statement' approach to the public sector. As we explain in our answer to question 3, the Exposure Draft omits some major classes of public sector entity. More significantly, the approach would require statements on a 'per entity' basis for many public sector bodies.

Reordering the opinion

We agree with the regrouping of the components of the auditor's opinion for companies audits, dealing first with the 'true and fair view' opinion before moving on to 'other legal and regulatory requirements'.

However, we would note that this presentation will not work well for all public sector audits, especially for those audits where the auditor is required to report on the regularity of expenditure. The regularity opinion is as much a key distinctive component of these public sector audit reports as the true and fair view. It would therefore not be helpful to brigade the regularity audit requirement with reporting on the 'other legal and regulatory requirements'.

In line with extant ISA (UK & Ireland) 700, the exposure draft includes a public sector perspective referring to Practice Notes 10 and 10 (I), and notes that

While the basic principles contained in this ISA (UK and Ireland) apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content and form of the auditor's report.

While the above text helpfully sets the scene for variant formats, it would be helpful if it were clearer that the legislation giving rise to the audit mandate will result in different auditor responsibilities, and that these may require a different auditor's report.

Response to Invitation to Comment

Answers to the questions in the APB Invitation to Comment are provided in the Annex.

I hope these comments are a helpful contribution to standards development and further consideration of these issues.

Yours sincerely

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General invitation to comment

Question 1

The APB invites comments on:

- (a) the proposed ISA (UK and Ireland) 700 (Revised) on pages 15 to 31;
- (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; and
- (c) the example auditor's reports on pages 11 to 14.

(a) We are content with most of the material in the proposed ISA (UK & Ireland)

Our main concern is the proposal to allow the description of the auditors work to be moved to the APB website. We comment on this in our covering letter and our response to Questions 2, 3 and 5.

In addition, we wonder if this proposal is consistent with paragraph 40 (b) (v) of the Clarity text. The latter requires

A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

- A reference to International Standards on Auditing and the national auditing standards; and*
- A description of the work an auditor performs in an audit;*

It is not clear to us that a reference to a description contained in a separate website would be interpreted as a 'description of the work an auditor performs'.

(b) The proposed Statement provides clear and helpful descriptions of audit scope and work, and appears consistent with ISAs (UK & Ireland) which are pertinent to the auditor's report. However, as noted in our response to Question 3, there would be practical difficulties in adopting this approach in the public sector.

(c) We are concerned about the description of auditor's work as noted at (a) above.

In addition, while we generally agree with the regrouping of the components of the auditor's opinion, specific consideration needs to be given to the implications for public sector audits. In particular, sufficient prominence needs to be given to the regularity opinion, and this is unlikely to be achieved if it is brigaded with reporting on other legal and regulatory requirements. While the Public Sector Perspective notes that 'the legislation giving rise to the audit mandate may specify the nature, content and form of the auditor's report' it would be helpful if this were expanded on, perhaps making specific reference to regularity reporting.

The example audit reports explain that auditors follow APB Ethical Standards; while this is helpful explanation, in our view it adds less value to the report than other disclosures, especially as the report already notes that Auditing Standards are followed.

The example audit reports also provide confirmation that there are no matters to report by exception. CIPFA's response to the Discussion Paper noted our concern that this added to boilerplate reporting. We note that this disclosure was mainly supported by institutional investors and we suggest that there would be little demand for this disclosure in public sector audit reports.

Permitting cross referencing to information held on the APB's web site

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?

As noted in our covering letter, we have some considerable concerns over the proposal to allow the auditor's report to provide only cross-referencing to web site information.

In our answer to Question 5 of the discussion paper 'The Auditor's Report: Time for a Change?' we agreed that there is no reason why a *detailed* description needs to be within the body of the audit report. We can also see that improvements might be made by moving some of this detail to other publicly available media. The use of other media, whether on the APB website or elsewhere, could also be used to provide more extensive and user friendly explanations of auditor activity. We have already drawn the Board's attention to helpful material on the Audit Commission website.

However, we are conscious that

- access may not be convenient for all readers of financial statements;
- in practice many readers will read only documents attached to the financial statements.

Furthermore, while this approach may be effective where many reports are being prepared under a common statutory framework, it seems likely to require disproportionate effort and cost for public sector audits. There is a multiplicity of statutory reporting requirements and frameworks for different types of bodies within the various sub-sectors, and further diversity has been introduced through the devolved arrangements in Scotland, Wales and Northern Ireland. Keeping a supporting website up to date, accurate and properly quality assured would be a significant undertaking.

Taking these factors together, we therefore consider that sufficient description of auditor responsibilities needs to be included in the documents attached to the financial statements, either in the auditor's report, or in another report produced by the auditor.

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?

As noted in our answers to Questions 1 and 2, CIPFA has concerns about applying this approach to the public sector.

In order to implement the approach, a large number of example statements would be required. For some of the headings on page 41 to 42, there would be a need for multiple statements to reflect differences where the reporting framework and auditor's responsibility

- derive from legislation relating to a particular sub-sector (such as the legislation for Foundation Trusts); or
- derive from legislation specific to the entity (relevant to many NDPBs and Trading Funds); or
- are separately specified by regulators; or
- differ from the sector norm for other reasons.

In addition to the headings set out at pages 41 to 42 there would be a need for example statements (or multiple statements) for, at the very least:

- parliamentary bodies
- devolved government bodies in Wales, Scotland and Northern Ireland
- sponsored bodies or other NDPB equivalent bodies in the devolved government administrations
- the various NHS trusts, health authorities and other bodies in the devolved government administrations
- probation boards in England and Wales
- further and higher education bodies which are not incorporated as charities or part of local government

It might be possible to reduce the number of 'per entity' and sub-sector statements by adopting a more generic form of statement. However, this would need to be done in a way which maintained readability.

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?

As noted in our answer to Question 3, developing and maintaining current examples would be a substantial undertaking. Additionally, there are archiving issues to consider if these documents become an essential part of the financial reporting record. The APB would need to maintain archival copies of earlier published versions, in a form which facilitated reference by readers of the financial reports to which they applied. Archives would need to be maintained for at least the six years for which companies are required to retain information, and for public sector audits it may be appropriate to retain this information for a longer period or perhaps indefinitely.

References to the true and fair view

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 wording of paragraph 18 is sufficiently generic to apply to relevant entities. However, as noted in our response to Question 3, there may be practical problems in maintaining example statements which provide adequate detail of the applicable framework.

Ordering of the elements of the opinion on the financial statements

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?"

We agree that this is logical, although we understand that some consider that the reference to "true and fair view" should be the first element in view of its importance. We do not have a strong view on this matter.

As noted in our covering letter and in our answer to Question 1(c), we are more concerned with the presentation of the regularity opinion.

APB's Proposed Course of Action

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?

We have no particular points to make as regards the proposed course of action, except to repeat our concerns over the proposals to use separate 'example' statements, and the desirability of providing better explanation of auditor reporting for public sector audits.