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Dear Mr Leonard,

The auditor's report on financial statements ISA (UK and Ireland) 700 (revised) - exposure draft

We welcome the opportunity to comment on the above exposure draft.

We found the proposals to shorten the audit report attractive and support them. Investors have advocated a shorter report and requested more focus on the opinion and we are pleased that the APB has responded to their needs. However, we believe that it would be possible to shorten the report further thereby giving more prominence to the opinion.

We understand that the proposals are also being made to influence the direction of development of the global and possible EU audit report. Being able to demonstrate a different paradigm in practice would be persuasive. As this standard would be a partial divergence from international auditing standards, in quantity though not in principle, we encourage the APB to discuss with the IAASB the reasons that the UK is taking this approach. Unless the IAASB is sympathetic to the APB's reasons for divergence from ISA 700, the international market may not accept the UK's suggestions and, in the interim, convergence will have been lost.

We also consider that the APB should give weight to the comments of investors on the exposure draft as there would be little point in losing international convergence, even if temporarily, if investors do not support the proposals.

Our detailed answers to the questions are attached as an appendix. In addition to the comments above we specifically highlight our comments on:

- the continuing relevance of the 'Bannerman' paragraph;
- the potentially short period for the report to be used; and

- the acceptability of cross referencing to material on the APB website.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P J Crooks'.

P J Crooks
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Comments on the individual questions

Question 1 - The APB invites comments on:

- i the proposed ISA (UK and Ireland) 700 (Revised)

We have no overall comments on the proposed ISA, other than to note that the APB is proposing one standard rather than the international three standards. We consider that a single standard is helpful and have no objection to this approach.

We have detailed comments, however, on parts of it, which are below in order of the paragraphs of the standard.

Paragraph 2 should describe what a compliance audit is, if the second sentence is retained. The sentence is isolated without any context regarding to what it refers, unlike the IAASB ISA 700. Nothing would be lost by removing the sentence as ISA 700 (UK and Ireland) is written in the context of these countries laws and auditing standards and not those of where a compliance regime is the norm.

Paragraph 5 (c) should have (i) and (ii) reversed, or preferably (ii) removed, as discussed in more detail in question 6.

Paragraph 6 (h) is a new requirement which does not correspond to anything in current UK or international auditing standards, though it appears in accounting standards. 'Faithfully represent ... in a manner that achieves a true and fair view' could be considered ambiguous, despite its origin in accounting standards. A true and fair view may require a departure from faithful representation. If this paragraph is an attempt to encompass what an audit is, which the preceding sub-paragraphs do not sufficiently capture in their concentration on compliance (for example sub-paragraphs (a), (b), (c), and (g)), it could be achieved simply by missing out 'faithfully'.

Paragraph 7 (d) (iv) refers to ethical standards. We consider that a reference to ethical standards is superfluous. However, if the consensus is to leave the reference, we suggest missing out 'In forming our opinion' as ethical standards do not impact on forming the opinion but on the appointment as auditor, the composition of the audit team and other services supplied. See iii below for further comments on this.

Paragraph 7 (e) describes the main opinion. We suggest (i), the reference to the reporting framework, should be removed and the paragraph should only contain the expression of opinion on the financial statements. There is sufficient description of the framework elsewhere and it also would be better in the second part. (See question 6 below)

Paragraph 16. If the option is taken not to refer to the APB's web site, the statement in the audit report would need to mirror that on the web site to have credibility. The length of the statement is makes this impracticable.

Paragraph 18. We do not believe that the opinion paragraph need state that the financial statements have been properly prepared in accordance with the relevant financial reporting framework and applicable law as it is unlikely that they would show a true and fair view if this was not the case, as is explained in paragraphs 19 and 20. However, we do not consider that the auditor should remain silent on such compliance but that it should be moved to the

opinion on other reporting responsibilities.

Paragraph 21. As mentioned above under paragraph 18, we consider that the auditor has no need to refer to the financial reporting framework in the opinion as this has already been referred to in the opening paragraph. As one of the purposes of this proposed ISA is to present a report that focuses on the main points of relevance to users, it is not necessary to repeat something that is mentioned previously.

We have no other comments on the proposed ISA other than those dealt with in the answers to the questions that follow.

- ii 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", which is intended would be posted to the APB's web site;

We support the comment that prefaces the statement stating that it is not a substitute for reading the full texts. Describing an audit in two paragraphs, which the current audit report tries to do, does not narrow the expectation gap, but it is unlikely that the suggested statement will either.

The criteria for selection of items to include in the statement is not obvious. There is a heavy emphasis on reporting requirements and little on the scope of an audit, even though much of the description of reporting requirements is headed 'the scope of an audit'. Reporting requirements described include the auditor's responsibilities as regards the Companies Act requirements, reporting on other information in the annual report, communicating audit matters of governance interest, and some of the text of ISA 700.

We believe more emphasis on the scope of an audit and less on reporting responsibilities would be more useful. The reporting responsibilities are adequately covered in the audit report itself, particularly in the section on other legal and regulatory requirements. Missing out most, if not all of the reporting responsibilities, would emphasise the scope of an audit.

We consider that reference could also be made to the Audit Regulations of the Institutes as, to conduct an audit, auditors have to comply with them. They are the enforcement mechanism to ensure that auditors carry out audits in accordance with the various requirements.

We are surprised at the length of the proposed statement especially compared to the amount in the audit report that it is replacing. We consider that it is disproportionate and unlikely to be read. A reference to audit standards in generic terms and relevant law and regulations may be preferable.

It is likely that some shareholders do not have access to the internet and that it is also likely that few readers will go to the web site, other than perhaps once through curiosity.

- iii the example auditor's reports

The first paragraph of the respective responsibilities would be more concise if it read "The directors are responsible for the presentation and preparation of the financial statements and

for ...".

The second paragraph should miss out the sentence on Ethical Standards which is superfluous as ethical standards are encompassed in the word independent in the heading. The third sentence, now the second, would read "A statement describing the scope of an audit, the auditor's reporting responsibilities and the ethical standards with which auditors comply in respect of ...".

As stated elsewhere, we would prefer the opinion to be confined to whether the financial statements give a true and fair view and the rest to be moved to the report on other matters.

It is also likely that many auditors, including ourselves, will continue to insert a 'Bannerman' paragraph into the audit report as there have now been at least two legal cases where the judge has stated that if such a disclaimer had been in the audit report, the auditors would not be held responsible to the entity that was claiming reliance. We note this as it clearly adds to the length of the report.

We also would like legal assurance that disclosing information on the APB's website would also be covered by any Bannerman disclaimer.

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?

We support option a.

The current standard paragraphs of the audit report describing the auditor's responsibilities and work performed are a very succinct description, which does not do justice to the many standards, regulations and legislation under which audits are carried out. These paragraphs also distract the reader from the main point of the report, the opinion. We therefore welcome the proposal to remove such paragraphs to the APB's web site.

If there is a consensus for option b, we would prefer the paragraphs to be cross-referenced and added as a note at the end, in the same way the two statements regarding company's web sites used to be described.

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 website?

There are several additional examples that we believe the APB should post to its website, including:

- Industrial and Provident Societies
- Limited Liability Partnerships
- Limited Partnerships
- UK Unit Trusts
- UK OEICS (both retail schemes and qualified investor schemes)
- Overseas companies where UK auditors may carry out the audit - Jersey, Bermuda, Cayman

Island companies

We also consider that the example statement is not logically ordered.. If it outlined the scope of an audit first, this would be applicable for all entities. It then could have options according to the type of entity.

Unfortunately, the list of entities that would need to be covered is extensive and will reduce the usefulness of reference to a website.

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 mentioned in the answer to question 1ii above, some users of financial statements will not have access to the internet and others will not read the example statements. Bearing in mind that the purpose is to influence the international debate, we doubt whether this would be a practical international solution, even if similar statements were maintained on the web sites of all IFAC members.

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.

We consider the wording is sufficiently generic.

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 consider that the reference to the true and fair view in the audit opinion is the most important part of the opinion. While it could be argued that building up to a climax has more effect, this is weakened by the reporting on other matters that follows. It is not the final element in the report. In fact, there is little to distinguish the content of the first two bullet points, properly prepared in accordance with a recognised accounting framework and prepared in accordance with the legislation, from the opinion on other matters that follows, other than a new heading. The true and fair opinion is lost in the middle.

We have several suggestions, all of which we consider are better than the existing format.

- i put it as the first bullet
- ii move the first and second bullets to the other matters section
- iii put the true and fair opinion in the first paragraph of the report, as suggested by some respondents to the discussion paper, as the second sentence. The existing second sentence on preparation in accordance with law and named accounting standards could be the second sentence of the second paragraph as the preparation and the selection of accounting standards is the directors' responsibility.

The report would then read (with other changes suggested above):

We have audited the financial statements of XYZ Ltd for the year ended ... which comprise ... and the related notes. In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at ... and the company's profit and loss for the year then ended.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation and presentation of the financial statements and for being satisfied that they give a true and fair view. The financial statements have been prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility is to audit the financial statements in accordance with the requirements of the Companies Act 2006 and International Standards on Auditing (UK and Ireland) and to express an opinion on the financial statements. A statement describing the scope of an audit, the auditor's reporting responsibilities and the ethical standards with which auditors comply in respect of a United Kingdom publicly traded company is available on the APB's web site.

Report on other legal and regulatory matters

In our opinion the financial statements:

- have been properly prepared in accordance IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements on the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation
- the part of the Directors' Remuneration Report etc.

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

Some of the steps have already taken place and, provided this exposure draft is accepted without major change, the steps in Spring 2009 will take place. However, the rationale behind the process needs to be considered. IAASB is about to issue its revised ISA 700 with an adoption date of periods beginning on or after 15 December 2009 i.e. year ends from 31 December 2010. This would appear to give a period of 20 months rather than the three years mentioned. It is a very short period to prove acceptance.

The example report in ISA 700 is shorter than the current UK standard report. The UK report is cumbersome due to the amount of detail on the Companies Act requirements and also the paragraph on reading other information in the financial statements. The APB could consider just adopting the report in ISA 700 with its option of adding other matters after the main report.