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

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Dear Steven

APB EXPOSURE DRAFT – INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 700 (REVISED): THE AUDITOR’S REPORT ON FINANCIAL STATEMENTS

The Institute of Chartered Accountants of Scotland’s Audit and Assurance Committee welcomes the opportunity to comment on the above Exposure Draft.

The Institute is the first incorporated professional accountancy body in the world. The Institute’s Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members’ views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our responses to the questions in the Exposure Draft are set out below.

General invitation to comment

Q1: The APB invites comments on:

- (a) the proposed ISA 700 (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 website; and
- (c) the example auditor’s reports on pages 11 to 14.

Overall, we support the proposed ISA, the statement of the scope of an audit and the auditor’s responsibilities, and the example auditor’s reports. Our only comment on the proposed ISA is that paragraph 7 is superfluous since it summarises the subsequent requirements and therefore could be omitted.

The proposed statement on the scope of an audit and the auditor's responsibility is fairly long, and is considerably more extensive than the statement included in existing auditors' reports. We question whether such a large increase in volume of information will be beneficial to the reader of the audit report. There is a balance to be struck between providing sufficient information to enable an understanding of the audit, and ensuring that the key information is readily identifiable and understandable. We believe that the draft statement could be shortened by, for example:

- removing the information on the Companies Act 2006 requirement to report certain matters by exception since this is also included in the auditor's report.
- removing much of the detail in section 2 on compliance with ISAs and APB's Ethical Standards, reasonable assurance, communicating audit matters of governance interest and reporting on the financial statements. We do not believe that this level of detail is necessary to give an appropriate understanding of the audit scope and responsibilities.

Specific issues on which APB invites responses

Q2: 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 website; or
- (b) including a description in the auditor's report itself?

We agree with the proposal to describe the auditor's responsibilities and the work an auditor typically performs by either cross referring to the APB's website or including a description in the auditor's report, although as noted above we believe that the draft statement is currently too long. This will give auditors the option to reduce the length of their report.

Q3: On pages 41 and 42 the APB sets out a schedule on the range of example statements that it presently intends to post to its website. Are there any other examples that you believe it is imperative the APB should post to its website?

We are not aware of any other examples that the APB requires to add to the website.

Q4: 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?

We would note that the two approaches the APB is proposing will result in a lesser degree of consistency in the reporting format used. This could therefore be confusing to users of audit reports initially, but we do not think that this is a significant concern. It is also unclear what wording an auditor would use if the description was retained in the audit report rather than cross-referencing.

Q5: 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 believe that the wording of paragraph 18 is sufficiently generic to apply to all entities that are required to be audited. We note that paragraph 2 covers how the ISA can be applied to financial statements that are not intended to give a true and fair view.

Q6: 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 the reference to the ‘true and fair view’ should be the final element of the auditor’s opinion on the financial statements. This serves to emphasise that ‘true and fair’ is the foundation principle underpinning financial statements, and that its consideration is an overarching ‘stand-back’ test for the auditor.

Q7: 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 support the APB’s proposed course of action in relation to future changes to the auditor’s report. Particularly in the current economic climate, it is important that investors have confidence in financial reporting and in the work of the auditor, therefore any changes that can be made to the auditor’s report to improve this situation should be investigated.

I hope our comments are useful to you in the finalisation of this standard. If you wish to discuss any of them, please do not hesitate to contact me.

Yours sincerely

AMY HUTCHINSON
Assistant Director, Accounting and Auditing
Secretary to the Audit and Assurance Committee