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28 November 2008

Dear Steven

**ISA 700 (UK and Ireland) Revised: The auditor's report on financial statements**

We welcome the opportunity to comment on the above exposure draft. We commented on the discussion paper that preceded it and are pleased to note that a number of our suggestions have been reflected in the current draft, notably the adoption of a two-phase approach and the removal of much of the defensive 'boilerplate' wording which has increased the length of audit reports over the years. We also welcome the APB's stated intention of leading discussions internationally in order to improve ISA 700 further.

We would like to re-iterate our belief in the importance of improving the company specific information in the audit report or in other parts of the annual report, scheduled for phase two of the project. We envisage this involving investors, preparers and auditors and addressing disclosures of emphases of matter, as well as improving disclosures made in audit committee reports, business reviews and the notes to the financial statements concerning key assumptions and sources of estimation uncertainty.

Our responses to the specific questions 1 to 7 are set out below.

- 1) *Permitting cross referencing to information held on the APB's website.*

See our response to 2) below.

- 2) *Should a description of the auditor's responsibilities and the work an auditor typically performs be included in the audit report or cross referred from the report to standard paragraphs maintained by APB on its website?*

We support the innovative idea of cross referencing to the APB website, and would suggest it be made mandatory in the interests of consistency, irrespective of whether a detailed statement is also included in the audit report itself. Larger companies may wish to include such a statement within the Report and Accounts (outside the audit report) but for smaller companies the cross referencing method seems

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greatly preferable to including a lengthy (7 A4 pages in the exposure draft) standard description within the accounts or audit report or substituting a condensed version which may not be as clear to the reader.

- 3) *In addition to the example statements for different types of entity set out in the exposure draft, are there any other examples which should be posted to the APB website?*

Possibly one for non-publicly –traded companies using IFRS, as this is likely to be a growing category, but otherwise the list seems sufficiently comprehensive.

- 4) *In addition to the need to develop and maintain current examples relating to a number of different types of entity, what other practical difficulties might arise from the proposed approach?*

There are obviously resource implications for APB. There may also be a need to keep non-current versions for legal purposes after changes have been made. There is also the risk of users selecting the wrong example from the 30 or so available; though this could be reduced by ensuring that the cross reference in the audit report matched exactly the relevant website example- perhaps by means of a coding system. In our view, none of the practical difficulties are insuperable and do not collectively outweigh the advantages of the website approach.

- 5) *Is the wording of paragraph 18 in the exposure draft sufficiently generic to apply to all entities that require an audit? (describes content of opinion paragraph)*

Yes, so far as it is restricted to the opinion on the financial statements. For public sector entities, for example, additional forms of opinion may be mandated but these would presumably fall under the second part of the audit report.

- 6) *Should the reference to truth and fairness be the final bullet point in the opinion paragraph rather than following the order of the Companies Act 2006?*

We do not have a strong view on this. We can see the logic of putting it last to emphasise that it is the auditor's final judgement; we can also see an argument for following the Companies Act order and putting it first.

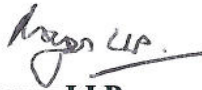
- 7) *Please provide any comments on the steps set out concerning APB's proposed course of action and the timing of those steps? Are there any other actions APB should be taking?*

We support the proposed implementation of the revised ISA for periods ending 5 April 2009 as this will – apart from short accounting periods which APB has already addressed- fit with the accounting and reporting provisions of the 2006 Companies Act and introduce the benefits of improved audit reporting from the earliest practicable date.

We also note the commitment to progress guidance on adequate accounting records together with the broader FRC initiative. Given that existing guidance in this area- FRAG 5/92, based on the 1985 Companies Act, is seriously out of date, and in particular does not reflect advances in information technology which have fundamentally affected the way accounting records are kept, we would urge both APB and FRC to treat this as high priority rather than 'the longer term' referred to in the invitation to comment.

If you would like to discuss our response further, please contact Anthony Carey on 020 7063 4411 or Julian Mason on 020 7063 4372.

Yours sincerely



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