



National Audit Office

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Dear Steven

CONSULTATION ON EXPOSURE DRAFT FOR ISA 700

The National Audit Office welcomes the opportunity to comment on the APB exposure draft for ISA (UK and Ireland) 700, the Auditor's Report on Financial Statements. The National Audit Office audits all UK central government departments and a wide range of other UK and international publicly funded bodies. In carrying out our work we have chosen to adopt ISA (UK and Ireland) 700 and the additional guidance contained in APB Bulletin 2008/07.

We support the move to provide users of accounts with a more focused and direct audit report. However, in doing so, it is important to retain the prominence of the regularity opinion, which is at least as important in the public sector as the 'true and fair' opinion on the financial statements. We do not see the regularity opinion as appearing in the 'other legal and regulatory requirement' part of the auditors report.

The APB Public Sector Sub-Committee will consider this issue as part of its proposed update of the Practice Note 10. However, we recommend acknowledgement within ISA 700 (UK&I) of this additional requirement in the public sector, and of the need for it to remain as prominent as the 'true and fair view'. In particular, we suggest in the attached comments that the issue should be recognised within paragraph 18 of the proposed ISA 700.

The proposal to remove the explanation of auditor responsibilities and the description of an audit to a remote location has some merit, but we see this as particularly impractical in the arena in which we work. Many of our audits have a different statutory background and we see, in particular, that the maintenance of a central library of auditor responsibilities for the public sector as a significant task which would run to many tens of examples. This would lead to difficulties in maintaining the documents, and have potential to cause confusion. We would encourage the APB to consider if some of the more generic and common information might be held in a central place, but we would see certain information on responsibilities of auditors remaining in the auditors report.

Yours sincerely,

ANDREW BAIGENT
Director, Financial Audit Policy



Specific comments

Question 2: Do commentators support APB's proposal of describing the auditor's responsibilities and the work of an auditor typically performs by either:

- a. Cross-referencing to standard paragraphs maintained by the APB on its website; or
- b. Including a description in the auditor's report itself?

We recognise that the current boiler-plate descriptions of auditor responsibilities and the scope of an audit provide limited value to many readers of accounts, and that the proposed statement is more detailed than is currently disclosed within an audit report. Maintaining a separate statement on the APB website has merit, although there will be considerable effort required to draft, agree and maintain appropriate statements for the different types of organisation. The volume of statements could cause confusion.

There are many acts of Parliament governing the preparation and audit of financial statements in the public sector, with subtle differences in responsibilities and reporting requirements. In order to inform readers of this context, we would expect to include some additional information within the audit report. The audience for financial statements and the audit report in the public sector is also much wider than might be the case for listed companies; many have limited understanding of the scope of an audit, and there is a risk the absence of a description and clear delineation of responsibilities could cause confusion or misinterpretation.

We would therefore expect to incorporate some description within our audit reports. Given that the APB's proposed statement is more comprehensive than any statement previously provided within an audit report, we consider there is merit in the APB maintaining generic statements to supplement the specific statements made within the audit reports.

Question 3: The APB sets out a schedule of the range of example statements it presently intends to post to its website. Are there any other examples?

Within our audit sector there is a need to clearly identify the different legislative and other frameworks that govern the financial reporting and audit requirements of the bodies. This specifically affects the responsibilities section and the other legal and regulatory requirements. As indicated above, there may be a need to ensure the wording is appropriately generic in places to allow application to all entities within that sector, which in turn would require appropriate indication of legislative and reporting requirements in the audit report.

Question 4: In addition to the need for the APB to develop and maintain current examples relating to a number of difference types of entity, what other practical difficulties do you think might arise from the APB's proposed approach?

As noted in response to question 3

Question 5: is the wording of paragraph 18 in the Exposure Draft sufficiently generic to apply to all entities that are required to be audited?

We consider there should be recognition of the public sector regularity assertion, which is at least as equally important as the opinion on the financial statements. In addition, there are reporting frameworks within the public sector that require a properly presents opinion. We are of the opinion that an audit of these financial statements can still be undertaken in compliance with ISA 700, subject to interpretation within Practice Note 10.

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?

Yes, although a method needs to be found to ensure the regularity opinion which is given in many public sector audit reports is given equal prominence.

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? Are there any other actions that you believe the APB should be taking?

The development of the public sector guidance should be recognised, specifically the update of Practice Note 10 and the succession to Bulletin 2008/07.