



THE ASSOCIATION  
OF INTERNATIONAL  
ACCOUNTANTS

CREATING WORLD CLASS  
**ACCOUNTANTS**

## Association of International Accountants

**Response to the Auditing Practices Board Consultation  
ISA (UK and Ireland) 700 (Revised) 'The Auditor's Report on Financial Statements'**

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**Association of International Accountants**

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*Company number 00264086. The AIA is a Recognised Qualifying Body for company auditors in the UK.*

## Introduction

These comments are submitted by the Association of International Accountants, with input from a technical committee and members of the Association. AIA would like to thank Mr John Dunn, University of Strathclyde, for his input in this consultation response.

## About AIA

AIA is recognised by the UK Government as a Recognised Qualifying Body for statutory auditors under the Companies Act 2006, across the European Union under the Mutual Recognition of Professional Qualifications directive and as a Prescribed Body under the Companies (Auditing and Accounting) Act 2003 in the Republic of Ireland.

The AIA professional qualification is currently recognised in over 30 countries worldwide

AIA exams are held twice a year around the world and are based on International Financial Reporting Standards and International Auditing Standards, complemented by a range of variant papers applicable to local tax and company law in key jurisdictions.

All AIA members must undertake Continuing Professional Development, are subject to Disciplinary Procedures and adhere to the International Federation of Accountants (IFAC) Code of Ethics. AIA is regulated by the Professional Oversight Board, part of the UK's Financial Reporting Council and the Irish Auditing & Accounting Supervisory Authority (IAASA).

The AIA is constantly working with its people and partners in financial centres worldwide to encourage trust, clarity and shared international standards in the accounting profession. Many of its members are at the top of the industry, from senior management to director level, representing some of the most important and profitable firms in the world.

## Comments

**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) AIA supports the principle of revisiting the form and content of the independent auditor's report from time to time. The clarity of the audit report is arguably the single most important aspect of ensuring that the auditor's findings are understood by all readers.

AIA supports the reduction in the quantity of "boilerplate" text in the standard, unqualified audit report. It is debatable whether the material that is currently provided serves to educate readers or helps to reduce the auditor's exposure to criticism or claims for compensation in the light of alleged shortcomings of the audit.

- (b) We are not convinced that the proposed statement of scope, as provided on pages 33 to 39 of the draft is a suitable document in its present form. Arguably, lay readers would find it difficult to understand the document in its present form and so it would do nothing to alleviate the danger of unrealistic expectations. The guidance provided is more extensive than the wording of the present text as provided, but still relies heavily upon technical language and terms of art that require an understanding of auditing to appreciate. One could imagine this document being produced as an exhibit for the defence in a civil case for alleged audit negligence, but it is not sufficiently clear to inform the range of readers who may choose to rely on the audit report.

If the APB is committed to educating users as to the extent to which it is realistic to rely on an audit report then it would be appropriate to provide readers with materials that are designed to be more accessible.

- (c) AIA is broadly supportive of the example audit reports on pages 11 to 14. We are particularly impressed by the brevity of the document in comparison to the present wording.

We are slightly concerned by the fact that the UK specimen report refers to matters that the Companies Act 2006 requires to be reported by exception only. It is very unlikely that readers will obtain any additional information or comfort from the description of the auditor's statutory responsibilities in these respects.

**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?**

AIA does not feel that it is appropriate to cross reference the audit report to information on a web site. To do so defeats much of the purpose of presenting a concise report because readers who feel that they require additional description will have to integrate the material from the report itself with material from the web site.

Arguably, if the additional material to be provided to readers of financial statements is crucial to their understanding of the audit report then that material ought to be provided as a footnote to the revised version of the report. Apart from

simplifying the process of obtaining this material it will also overcome the threat of confusion if the wording of the web page changes over time and readers are then left unclear as to which version of the statement relates to their report.

Providing any necessary guidance as an attachment to the report itself will also reduce the risk of confusion if the report refers to the financial statements of an unusual type of entity that is not subject to the same reporting issues as a company.

In saying this, AIA believes that it would be sufficient to state clearly that auditing is a professional activity that requires the exercise of judgement. The auditor's work substantially reduces the risk that the financial statements will contain misstatements but cannot guarantee that none remain. Any reader who wishes to rely totally on the auditor's opinion should seek advice as to the nature and effect of an audit.

AIA would support the revision of the document "What is an Audit?", published by the erstwhile APC as an Audit Brief. That document could be posted to the APB's web site for the instruction of users in a less legalistic way than envisaged by question 2.

**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?**

AIA believes that the list is sufficiently comprehensive. It is likely that this exposure draft will motivate those responsible for the audits of any other interested party to come forward and request clarification.

**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?**

This is always going to be a contentious area for regulators and standard setters. Auditors, professional indemnity insurers, preparers of financial statements and informed users of the audit report have major economic interests in the format and wording of the audit report. Reconciling those interests is a difficult matter.

**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?**

AIA believes that the principles underlying paragraph 18 are broadly sound, although there is a slim possibility of misunderstanding. The opening sentence of the paragraph is worded in an extremely complicated way and makes a number of implications that may not be true. For example, the wording implies that the framework used to prepare the financial statements is, in fact, the “relevant” framework. Surely the relevance of the framework used is a matter for the auditor to form an opinion on? Similarly, there seems to be very little point in referring to “applicable law” in this paragraph because any relevant legislation should be viewed as part of the reporting framework.

It might be simpler to unpack and simplify the language. There could also be some merit in making a definitive statement about the opinion expressed on the financial statements of a company reporting under the Companies Act 2006 or Irish company law and offering a more generic alternative for those entities that are not companies in these terms.

**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?**

AIA believes that placing the expression of opinion on truth and fairness at the very end of the opinion reduces the risk that any subsequent elements might be misread as somehow qualifying or amending the basic opinion.

**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?**

AIA believes that the programme of work is a logical sequence. It is, however, regrettable that the research into ways in which the auditor’s report might be made more informative has been left as a “longer term” objective. It might be argued that the whole process of reviewing and revising the audit report should have been underpinned with research from the very beginning.