

THE INSTITUTE OF
Chartered Accountants
IN IRELAND

Burlington House,
Burlington Road, Dublin 4
Tel: +353 1 637 7200
Fax: +353 1 668 0842
Email: ca@icai.ie
Web: www.icai.ie

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Steven Leonard,
Project Director
The Auditing Practices Board
5th floor,
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Mr Leonard

The Institute of Chartered Accountants in Ireland (ICAI) is pleased to respond to the APB's Exposure Draft ISA (UK and Ireland) 700 (Revised) (the Exposure Draft).

We welcome the issuance of the Exposure Draft, as a basis for causing debate in respect to the content and format of the auditor's report, as it seeks to ensure that the auditor's key deliverable is appropriately presented and understood and reduce the risk of misunderstanding in respect of the auditor's and directors' responsibilities.

In our comments on the APB "*Discussion Paper: The Auditors Report: Time for Change*" we indicated our overriding view that we believe that the clarified ISAs issued by the IAASB should be adopted, including ISA 700, to prevent divergence of the IAASB and APB auditing standards.

We support the proposals that the auditors report be kept as short as possible to the extent this can be facilitated within legal and regulatory requirements and agree with the two part report approach, making it consistent with the IAASB standard. We do however wish to re-emphasise the importance of ensuring that the expectations gap is not allowed to expand due to any change in the audit report.

While the ICAI is generally supportive of these objectives, we believe that these objectives are best achieved through revised IAASB standards and not through an independent standard issued by the APB.

In addition we believe there are a number of issues relating to the applicability of the APB standard to more than one jurisdiction.

- There are a number of potential Irish legal issues which may need further consideration by the APB and for which legal advice may be needed.
- The wording in the Exposure Draft is often closely aligned to UK company law, which is not consistent with current Irish company law.
- Irish company law is due to undergo change as a consequence of the implementation of the Eighth Company Law Directive and the Companies Consolidation and Reform Bill. We have no indication at present of when these changes will be effected.
- We are also uncertain as to the legal situation in respect to the housing of part of the auditor's report in a web site not part of the auditor's report (while Irish company law requires the auditors report to set out the auditor's responsibilities) and how this interacts with the requirement in Ireland to read the auditor's report at the AGM of a company.

Given these legal issues, many of which cannot be resolved until changes are made to Irish company law, it is not feasible for the revised ISA 700 (UK and Ireland) in the form presented in the ED to be effective in Ireland for accounting periods ending on or after 5 April 2009 as proposed. If the revised ISA 700 (UK and Ireland) is to be implemented in the UK in that timeframe then a solution will need to be found to address appropriately the Irish legal situation. We would caution against any divergence of auditing standards between Ireland and the UK and propose the inclusion in the revised ISA 700 (UK and Ireland) of distinct paragraphs which apply to the auditor's report on financial statements of Irish registered companies in areas where the ED is not appropriate to Ireland. The specific legal issues are enumerated in answer to the questions raised in the ED set out below.

We would also request that APB give serious consideration to the practical issues and risks of housing the auditor's responsibilities on a website. We are concerned with the auditor and user of the financial statements having to refer to a remote location to access important information on responsibilities. We question whether this serves the readers of accounts.

We support the two part audit report which is consistent with the IAASB's clarified ISA 700.

Within the Exposure Draft specific questions have been presented for comment and our views on those are set out below. Our consideration and comments on the Exposure Draft take account of the fact that the standard applies to both Irish and UK Company audit reports signed in Ireland.

Question 1 – The APB invited 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) The ICAI welcome changes which seek to align the ISA (UK and Ireland) with the IAASB ISAs, and in particular we are in favour of the two part form of report whereby the legal requirements be separated from the true and fair view opinion.
- b) The statement of auditor's responsibilities describes those aspects of the scope and responsibilities in significantly more detail than the option 16(b).

Some issues which might result from this proposed option are as follows:

- i) we are concerned that the longer length of audit report made available under the proposed standard could undermine those audit reports applying the shorter version. The extended detail in the "Statement of the scope of an audit and the auditor's responsibilities" may lead to a perception that an auditor opting for a 16(b) auditor report has diminished responsibilities. This perception is particularly suggested by the sentence "It is necessary for the auditor to consider the whole text of an ISA (UK and Ireland) or Ethical Standard in order to understand and apply the basic principles and essential procedures"; and
 - ii) The reading of the audit report at a company's AGM is required under company law in Ireland. There will be an inconsistency of differing lengths of audit reports being read out at shareholder AGMs, with option 16 (a) adding significant time to the process if the associated statement of responsibilities is also read. The later implementation of the Eighth Company Law Directive and the Companies Consolidation and Reform Bill in Ireland may include changes on the presentation and reading of the auditor's report. Any changes will need to be considered and incorporated at such time that these aspects are reflected in Irish Law.
- c) The sequence of bullet points of the opinion needs to be considered in the context of Irish legal requirements as outlined in our answer to question 6 below. The bullet point format is not currently consistent with Irish law which does not use bullet points at all but instead states

"the auditor's report shall state in particular whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework"

We do not yet know how Irish law will change in this regard.

We would question whether the explicit inclusion of a reference to compliance with the Auditing Practice Board's Ethical Standards is appropriate or adds value to the reader. In the view of the ICAI, this permeates our work as auditors, and we therefore are of the view that it does not require special mention in the audit report.

The reference to "Address" at the end of the Audit Report should be to "Location".

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?

Whilst we support the concept of a shorter audit report there are mixed views at our Audit and Assurance Committee as to the desirability of seeking to achieve this through a cross reference to standard paragraphs maintained on an external website. There are significant practical and legal issues which make this option a difficult one to implement at this time. We have set out those issues below and we also propose an alternative approach which is more workable. That alternative involves a cross reference from the auditor’s report to an auditor’s responsibilities statement within the same document as the auditor’s report itself.

We believe it would be important to continue to provide option 16(b) within the final standard for the location of the presentation of the auditor’s responsibilities.

Some practical considerations of importance in relation to option 16 (a) are:

1. We are currently unsure whether separation of the auditor’s responsibilities from the auditor’s report would comply with Irish legal requirements. Irish company law specifically requires that the auditor’s report on financial statements includes a “description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted”.
2. The maintenance of such a system will pose challenges for the APB and such an arrangement is only acceptable if this is appropriately facilitated. Some key points the APB needs to ensure are addressed include:
 - a. Ensuring there is real time accessibility to up to date responsibility statements which coincides with the timing of an audit signatory sign off. We consider it important that an audit report signatory read the relevant “Statement of the scope of an audit and the auditor’s responsibilities” at the time of signing to ensure that he is aware of exactly what he/she is actually signing. Issues with internet access for auditors in some locations could make this real-time awareness difficult as would any technical difficulties with the website.
 - b. APB would have to ensure that the practicalities of maintaining the website is adequately facilitated and supported technically. As example, there will be difficulties with maintaining workable links to the APB website from electronic audit reports, version control, maintaining availability to future and retrospectively applicable auditor responsibility statements on the APB website for readers of respective year end reports for all type entities.

One suggestion is for APB to consider a process whereby users are requested on the website page to input the type of entity and actual date of signing of the audit report such that the appropriate and relevant responsibility statement is automatically provided. This would prevent the auditor/user having to navigate through the section of the website to select the appropriate statement with the associated risk that the

incorrect statement will be viewed and inappropriately associated with an Audit Report.

A hits tracking system would enable APB to assess user friendliness of the process implemented and provide useful statistics on user traffic for the various statements.

In light of the above envisaged practical issues, a preferred option that would be acceptable and would work to reduce the length of the audit report and prevent the risk of increasing the expectations gap could be to maintain the statement of the auditor's responsibilities within the same document housing the audit opinion, perhaps alongside the statement of directors' responsibilities.

Finally, and importantly, the standard is silent on whether the option of audit report can be influenced by management or if the decision is solely that of the auditor. We believe that it is important that the standard make it clear that the report is the auditor's report and that the auditor is solely responsible for the determination of which option is applicable in each situation.

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?

We believe that the following would be useful to consider including.

Private Entities

Industrial and Provident Societies

Trade Unions

Undertakings for Collective Investment in Transferable Securities (UCITs)

Investment Companies under Part 13 of the 1990 Act

Credit Unions

Irish Pension Schemes (both defined benefit and defined contribution)

Public Sector

Local government bodies such as VECs.

It is unclear to the reader as to what is meant by "Bodies created by Registration under Company Law". While this phrase is used in Annex II to Practice Note 10 (I) (Revised) "Audit of central government financial statements in the Republic of Ireland" it is not a term broadly understood in Ireland. We would suggest instead the use of the term "companies established under state ownership to undertake specified activities".

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?

We feel strongly about continuing to provide option 16(b) within the final standard and indeed propose an option 16(c) as outlined above which would cross refer from the auditor's report to a statement of auditor's responsibilities within the same document in which the auditor's report is presented. We would have concerns in

respect of housing the statement of auditor's responsibilities on a website for the legal and practical reasons cited earlier. We also draw your attention to a potential political issue with the statement of auditor's responsibilities in relation to the financial statements of Irish registered companies being hosted on a UK website.

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?

Whilst the wording is sufficiently generic to apply to all entities we do raise concerns about how some may interpret the actual practical application of the new insertion “*It is not sufficient for the auditor to reach its conclusion concerning the true and fair view solely on the basis that the financial statements were prepared in accordance with applicable law and accounting standards*”

It would be useful if the APB were to elaborate on this statement so that it is clearer and would reduce the risk of an auditor extending his procedures and considerations beyond what is intended by this new insertion.

In the absence of an Irish legal opinion on this matter it is not possible to say whether this statement is appropriate in the Irish context.

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?”

As mentioned earlier there are two separate issues in relation to the bullet points (a) to (c) in the newly inserted statement in paragraph 5 and which presents the key evaluations and conclusions that the auditor must draw upon in providing his/her expression of opinion. The first issue is that it is unlikely to be appropriate in the Irish context to have a bullet point approach at all as this is not consistent with the wording in Irish company law. Irish Company Law requires that

“the auditor’s report shall state in particular whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework”

The second issue is the ordering of the bullet points. For an Irish auditor, the true and fair view is the overriding prerequisite and so is the primary evaluation, however in the proposed standard the true and fair evaluation is presented as the final point. We are unsure whether the division of the opinion and ordering of points as presented will be in compliance with current or changing Irish legal requirements. Consequently, it may be necessary to obtain legal opinion on whether the presentation as proposed is appropriate in the Irish context or will be appropriate when the amendments to Irish law are known.

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?

Given that it is unclear whether any changes in Irish law from the implementation of the Eighth Company Law Directive and the Companies Consolidation and Reform Bill may provide for different requirements compared with UK law, legal opinion will be necessary to determine whether these proposals will be appropriate under Irish Law.

It will also be important to fully consider the impact on the proposed standard when the APB commences its review of the clarified ISAs and how any of these relate to the audit report, including the style of the clarified ISAs.

Other Comments

Reference to Accounting Framework

Although the majority of accounts that are prepared by Irish companies comply with the ASB standards since the recognised accounting professional bodies in Ireland support the ASB standards, and which are promulgated in Ireland by ICAI, there is no reference within Irish law which require only ASB or IFRS for preparing accounts to give a “true and fair” view.

Paragraph 21 states that subject to certain restrictions, UK and Irish Company law permits the statutory financial statements of companies to be prepared in accordance with either options (a) and (b). It does not clarify that Irish company law does not prohibit an unlisted company preparing its financial statements on a basis other than (a) or (b) and actually does provide specific “extended permissions” under “alternative bodies of accounting standards” (ABAS) which are specifically mentioned in section 28 of the Investment Funds, Companies and Miscellaneous Provisions Act, 1990, and which provide for US, Canadian and Japanese standards to be adopted for accounts of Investment Companies.

It is also important to note that the application of the term “Generally Accepted Accounting Practices in Ireland” to the use of ASB standards has evolved from general acceptance by the profession and others in Ireland rather than having a basis in law supported by legal advice as is the case in the UK. In footnote 4 to paragraph 11 of APB Bulletin 2006/01 “Auditor’s reports on financial statements in the Republic of Ireland” Irish GAAP is defined as

“the generally accepted accounting practices employed to prepare accounts of Irish entities intended to give a true and fair view and includes relevant Irish company law and accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland”.

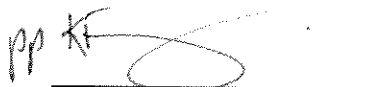
It would be useful to use a consistent definition of Irish GAAP in the revised ISA 700 (UK and Ireland).

Audit Report Signing Requirements

Paragraph 38 will only seek to mislead the Irish auditor given that the signing requirements for the audit report are currently different for Irish auditors. This however will apply in Ireland when legislation is transposed and paragraph 38 will therefore become outdated imminently. However as noted throughout this comment letter, we are unsure if there will be subtle differences with how this is transposed into Irish Law.

The Institute of Chartered Accountants in Ireland hopes you find these comments useful. If you would find further information or discussion helpful, please contact Karen Flannery in the Institute of Chartered Accountants in Ireland (00 353 1 6377389).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Niall Walsh', written over a horizontal line. To the left of the signature, there are two small handwritten initials 'pp'.

Niall Walsh
Chairman
Audit and Assurance Committee