

RELEVANT TO ACCA QUALIFICATION PAPER P7 (UK) AND PERFORMANCE OBJECTIVES 17 AND 18

Auditor's reports in the UK

In 2009, the Auditing Practices Board (APB) issued new International Standards on Auditing (ISA) (UK and Ireland), based on the clarified ISAs issued by the International Auditing and Assurance Standards Board (IAASB). These ISAs (UK and Ireland) largely mirror the ISAs issued by the IAASB, with the result that auditors in the UK now follow ISAs (UK and Ireland) that are broadly the same as the ISAs issued by the IAASB for international use, but made specific to local law and other regulatory matters.

However, there is one important exception – ISA 700 (UK and Ireland), *The Auditor's Report on Financial Statements*, dealing with unmodified auditor's reports, which remains UK specific. This article explores the reasoning behind the UK retaining its own version of the clarified ISA 700, and highlights the main differences between the UK version of ISA 700 and its international equivalent.

Note that in the Republic of Ireland the earlier, pre-clarification version of ISA 700 (UK and Ireland) that was effective for period commencing on or after 15 December 2004 remains in effect with respect to audits of Irish companies. This article is therefore not applicable to Paper P7 (IRL).

The auditor's report on financial statements

The APB has not adopted the IAASB's ISA 700, *Forming an Opinion and Reporting on Financial Statements*. It has instead issued a clarified version of ISA (UK and Ireland) 700, *The Auditor's Report on Financial Statements*, which addresses the requirements of UK company law and which also reflects feedback to APB consultations. The main effect of this is that the form of UK auditor's reports may not be exactly aligned with the precise format of auditor's reports required by ISA 700 issued by the IAASB.

The APB also publishes bulletins that provide a compendium of illustrative auditor's reports applicable in the UK, which support and illustrate the requirements of ISA 700 (UK and Ireland). Candidates are reminded that APB bulletins are persuasive rather than prescriptive in guidance, and illustrate best practice. Credit will be awarded in the exam for answers that refer to ISA 700 (UK and Ireland) or to the appropriate APB bulletin in auditor's reports.

Scope of the audit of the financial statements

One of the key differences between ISA 700 (UK and Ireland) and the IAASB's ISA 700 is the section of the auditor's report that describes the auditor's responsibilities in forming the audit opinion. ISA 700 (UK and Ireland) changes the heading of this section to 'Scope of the Audit of the Financial Statements'

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and allows three alternatives. In the case of UK companies, in meeting the requirements of ISA 700 (UK and Ireland), the auditor's report can:

- cross refer to a 'Statement of the Scope of an Audit' that is maintained on the APB's website, or
- cross refer to a 'Statement of the Scope of an Audit' that is included elsewhere within the annual report, or
- include a prescribed description of the scope of an audit using the wording from ISA 700 (UK and Ireland).

The reason for this is that when the auditor's report cross refers to a 'Statement of the Scope of an Audit' that is detailed either on the APB's website, or elsewhere in the annual report, the auditor's report is more concise and thought to be more user-friendly.

APB consultation draft

In September 2010, the APB published a consultation draft on a proposed revision to ISA 700 (UK and Ireland). This consultation draft is an examinable document for the Paper P7 (UK) adapted paper in 2011. The consultation draft contained two proposals.

The first proposal was to make the 'Statement of the Scope of an Audit' description on the APB's website generic so that it can apply to different types of entity. The APB commented that publishing a separate description for each type of entity could lead to unnecessary complexity. This would detract from the aim of making the description user-friendly. The APB indicated that it will maintain two generic descriptions on its website, one for private sector entities and one for public sector entities.

The second proposal related to the part of the 'Statement of the Scope of an Audit' that relates to the auditor's responsibility in relation to other information issued with financial statements. The APB recognises the growing importance of narrative information in annual reports, and therefore proposes to amend the prescribed wording of the description of the scope of an audit that may be included in the auditor's report to refer to the auditor's responsibility to read all of the narrative information included in the annual report in order to identify material misstatements or inconsistencies with the audited financial statements. This should serve to highlight to users of the auditor's report that auditors read all other information published with the financial statements.

In the consultation draft, the APB also commented that despite the option to cross refer to the 'Statement of the Scope of an Audit' maintained on the APB's website or elsewhere in the annual report, the majority of auditor's reports include the specific wording from ISA 700 (UK and Ireland). This potentially indicates that those responsible for preparing auditor's reports

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believe it is beneficial to retain the wording in the auditor's report itself rather than make users of the auditor's report look elsewhere to read about the auditor's responsibilities.

In February 2011 the APB included the matters described above in a revised ISA 700 (UK and Ireland). The revised ISA 700 (UK and Ireland) will be examinable for Paper P7 (UK) from 2012.

Conclusion

The auditor's report is the key output of any audit. ISA 700 (UK and Ireland) allows different methods of explaining to the users of the auditor's report the responsibilities of the auditor in forming their opinion on the financial statements. Candidates are reminded of the importance of auditor's reports in the Paper P7 syllabus, and are encouraged to read actual auditor's reports to develop further insight and understanding of the implications of the matters discussed in this article.

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