

Matthew Lester
Chairman
The 100 Group: Investor Relations & Markets Committee

c/o Royal Mail Group
100 Victoria Embankment
London



Investor Relations and Markets Committee

By email: www.iaasb.org

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York,
New York 10017
USA

22 November 2013

Dear Sir

Exposure Draft – Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

I am writing in my capacity as Chairman of The 100 Group Investor Relations & Markets Committee to share with you our views on the IAASB's consultation document on the above stated topic. The views expressed in this letter are based on our experiences as preparers of financial statements. We recognise that investors, auditors and other users of our financial statements are better placed to comment on many of the questions posed by the consultation, including those relating to the form and content of the audit report.

As a result of changes imposed by the UK Financial Reporting Council (FRC), our members are already experiencing a new style of auditor reporting within their Annual Report and Accounts; we do, however, recognise the need to internationally reassess if the current auditor's report remains the best way of communicating the results of the audit to shareholders and users of the accounts.

For many years, we have been following the debate about the role of the auditor and have previously taken the opportunity to respond to a number of public consultations seeking views on this and related issues¹. We have chosen not to respond to the questions raised in the Exposure Draft, instead focussing on the issues that we consider are most significant to our members: without wishing to repeat all matters from our previous response(s) to the IAASB's original enquiry on this topic, we believe that certain of our raised issues remain unchanged.

In overview, we are supportive of the current role of the auditors and the value brought to our shareholders through the financial statement audit and the independent auditors report. Any changes in regulation that occur as a consequence of this consultation must be to promote and enhance the quality and relevance of audit.

Who we are

¹ EU Call for Evidence - Lessons from a Crisis (20 December 2010); EU AUDIT POLICY - Audit Tendering processes and costs (13 June 2011); IAASB Consultation Paper – Enhancing the Value of Auditor Reporting: Exploring Options for Change (15 May 2011); IAASB Invitation to comment - Improving the Auditor's Report (June 2012)

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The 100 Group as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

We strongly believe that financial statements should be simplified and focussed on the significant issues that a user of the accounts should be aware of. To this end, we continue to be supportive of efforts to remove unnecessary disclosures from financial statements to make them easier to understand and interpret. With financial statements becoming increasingly lengthy and filled with boilerplate disclosures, users will only become more confused and, inevitably, costs to preparers and auditors will inflate.

The recommendations proposed by the IAASB do not fully meet the criteria we would expect for simplified, coherent reporting; in particular, the requirement for the inclusion of a going concern paragraph from the auditor appears to, simply, emphasise the going concern “accounting basis” decision, and that there are no material uncertainties about the use of that basis. As practice evolves, there is a significant likelihood that this proposed disclosure will become broadly boilerplate and will be indistinguishable between companies; a situation we do not believe anyone would welcome. With current proposals and ongoing developments in the UK (via the FRC) looking towards better front-end, narrative reporting about the long term threats to going concern and dissociating this from the accounts, we would encourage the IAASB to reconsider this proposal within the current Exposure Draft and, where applicable, to include clear reference to national requirements.

Furthermore, the inclusion of a paragraph of this nature would appear to imply that going concern is an auditor’s issue not, first of all, a company issue. We believe that the application of judgement is the responsibility of management and those charged with governance when preparing the financial statements. We do not, therefore, lend support to proposals which appear to give the auditor the responsibility to provide highly subjective views on an entity, as we believe that this blurs the line between the auditor, management and those charged with governance.

We welcome the IAASB’s aim to communicate the role and aims of an audit via link to a web page hosted by a national standard setter or other appropriate institution. We also suggest including additional materials (such as ‘frequently asked questions’) on the website to ensure that the expectation gap is narrowed as much as possible. This then increases users awareness of the audit process whilst cutting clutter.

Please feel free to contact me if you wish to discuss the views expressed in this letter.

Yours faithfully



Matthew Lester
Chairman
The 100 Group – Investor Relations & Markets Committee