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Chairman: The Hundred Group Investor Relations and Markets  
Committee

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**The Hundred Group**  
of Finance Directors

**Investor Relations and Markets Committee**

By email: [jamesgunn@iaasb.org](mailto:jamesgunn@iaasb.org)

Mr James Gunn  
IAASB Technical Director  
International Auditing and Assurance Standards Board  
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United States of America

8 October 2012

Dear Mr Gunn

**IAASB consultation on improving the auditor's report**

We welcome the opportunity to contribute to the proposed changes to the Auditor's Report to executive remuneration reporting. We recognise the need to 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 and believe that the IAASB's invitation to comment can be instrumental in focussing preparers, users and investors on what the auditor's report should include.

**Who we are**

The Hundred 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, collectively employing over 7% of the UK workforce and in 2011, paid, or generated, taxes equivalent to 13% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

**Our views**

Whilst we acknowledge that the auditor's report could and should be improved to help narrow the expectation gap between the auditor and users of the accounts, we have a number of general comments and concerns with the proposals by the IAASB.

We welcome the prominence given to the auditor's opinion in the illustrative auditor's report and agree that this and the basis of opinion should be shown up front. We also agree with the sentiment on reporting on going concern, although we believe that the audit opinion contains an inherent approval of the use of the going concern principal and lack of material uncertainties, so one could therefore take the view that this section is repeating what has already been confirmed by the opinion.

We are concerned about the content of the proposed reporting in the Auditor Commentary when considered with national requirements. In particular, the recent issuance by the UK FRC on Effective Company Stewardship "ECS" covers much of the same information but states that this should be included in the Audit Committee report in the Annual Report, not the Auditor's Report. We support the FRC proposals, and stress that the application of judgement is the responsibility of management with oversight provided by the Audit

Committee. We therefore recommend that the IAASB's proposals include reference to national requirements (where applicable) and allows the auditor to cross reference to other sections of the financial statements to avoid unnecessary duplication of information in both the Audit Committee and Auditor's reports.

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, support the 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 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 are supportive of the UK FRC 'Cutting clutter' and ICAS and NZICA 'Losing the excess baggage' publications, both of which are directed at how to remove unnecessary disclosures from financial statements to make them easier to understand and interpret. We believe financial statements are becoming increasingly lengthy and filled with boilerplate disclosures which are confusing users and adding significant cost to preparers and auditors. In our view, the illustrative auditor's report proposed by the IAASB does not meet the criteria we would expect for simplified, coherent reporting and therefore we cannot support the current version of the report. We believe that as practice evolves, there is a significant likelihood that the proposed report will become a broadly boilerplate report that is four times the length of the current boilerplate audit report, a situation we do not believe anyone would welcome.

We welcome the IAASB's aim to communicate the role and aims of an audit to all users, however we do not believe that the body of the audit report is the most appropriate place for this education and would prefer to see a 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 the expectation gap is narrowed as much as possible. This then increases users awareness of the audit process whilst cutting clutter from the Audit Report.

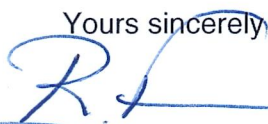
We support the inclusion of disclosures in the Auditor Commentary that add to the users understanding of the audit and the company's performance, but we do not believe that the illustrative auditor's report as currently drafted would help to narrow the expectation gap between the auditor and the users of the accounts. In fact, we believe that there is a risk that the gap could increase, given the length and quantity of general information and "boilerplate" reporting proposed.

We also consider that the proposals will lead to increased costs for preparers, both in audit fees but also time spent debating the content of the 'Auditor Commentary' to ensure the tone and messages are consistent with the rest of the financial statements. In a time of continued austerity and cost cutting, we do not see what the tangible benefit of this increased cost will be to the quality of the audit and of the auditor's report.

We have addressed some of the specific questions raised in the invitation to comment in the annex to this letter.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours sincerely



**Robin Freestone**

*Chairman*

*Hundred Group: Investor Relations and Markets Committee*

## **Annex: Our view on specific questions raised in the IAASB invitation to comment**

We have chosen not to respond to all questions raised in the consultation paper, instead focussing on the ones we consider most significant to our members.

### **1. Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including cost)? Why or why not?**

We are cautiously supportive of the IAASB's suggested improvements. We welcome the desire to enhance the relevance and informational value of the auditor's report, but do not believe that the proposals will achieve this in every case. We believe the responsibility for reporting on key judgements made in the accounts lies with management and those charged with governance "TCWG" and the proposals could blur this responsibility with that of the auditor due to the reporting requirement of the Auditor Commentary section.

We support the ability to give the auditor a voice should they strongly disagree with management on a significant issue, but feel that this is already covered by the "emphasis of matter" paragraphs that can be included in an unmodified opinion in the existing audit report framework.

We do not currently understand the distinction between what would be reported in the Auditor Commentary and what, under the FRC Effective Company Stewardship "ECS" rules recently introduced in the UK, would be reported by the Audit Committee in their report, as the Audit Committee are now required to report on the key issues and judgments they considered during the year. There is a risk that there would be duplication in reporting in the Audit Committee report and the Auditor Commentary, with additional time and cost spent ensuring both messages are aligned. We recommend allowing preparers and auditors to cross refer to key judgements if they are included elsewhere in the financial statements and that as much boilerplate disclosure, including the most of the definitions of responsibilities of management and the auditor, is allowed to be removed and included on a web page hosted by a national standard setter or other appropriate institution. This will reduce the length of the audit report and increase the impact for the user, allowing them to quickly establish they key messages the auditor is conveying.

### **2. Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.**

We believe that more guidance should be given in respect of the items to be included in the Auditor Commentary. For UK companies, as noted in the answer to question 1, the FRC ECS rules mean that there could be unnecessary duplication in the financial statements. We are also concerned that any key messages the auditor wants to convey to users are likely to get lost in the audit report, given both the length of the illustrative report and extensive amount of "boilerplate" disclosures therein. We would recommend the reduction in length of the report to help increase the clarity of the auditor's messages.

### **3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not.**

We support the attempts to move the auditor's report away from extensive boilerplate reporting, however we do not see the proposed Auditor Commentary providing the level of insights hoped for in these proposals. As previously noted, in the UK market, we are bound by the FRC's ECS rules. We therefore see a risk that there is repetition of disclosure, with sections of both the Audit Committee report and Auditor Commentary being virtually

identical. To avoid this, we believe that Audit Committees should report their views on the key issues and judgements considered in the year, which the auditor should be allowed to cross-refer to in the Auditor Commentary, unless they strongly disagree with the content of the Audit Committee report in which case this should be highlighted in the Auditor Commentary. It is likely, therefore, that the Auditor Commentary would be focussed on items such as scoping (for group audits) and materiality considerations. We believe that giving users information on the level of materiality used, the locations visited and percentage coverage of group results could help to reduce the misunderstanding that some users have about the scope of an audit, quantifying the work of the auditor and highlighting that not all transactions and locations were examined.

We firmly believe that the disclosure in the Auditor Commentary needs to supplement the users understanding of the financial statements and not just repeat information presented elsewhere.

**4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgement of the auditor, with guidance in the standards to inform the auditor's judgement? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision making process in selecting the matters to include in the Auditor Commentary?**

See comments in question 3. We fully support the right of the auditor to highlight significant issues that they may disagree with management and TCWG on, but there is a risk that the Auditor Commentary may become boilerplate (as it typically is in jurisdictions that have a similar model, such as France) and we do not support disclosure for the sake of disclosure. Insightful, focussed points that convey the auditor's views would be welcome (although we believe the process of reaching these disclosures will be costly for both preparer and auditor), and we would welcome guidance on the nature of items that are expected to be disclosed in this section, as well as reinforcing the need for company specific reporting.

**5. Do the illustrative examples of Auditor Commentary have the informational or decision making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary?**

We recognise that when drafting an illustrative report that could be applied by jurisdictions globally it is hard to provide wording that is company specific. We accept the aims of the Auditor Commentary (with reservations as expressed previously), but feel that any guidance issued when a final report format is decided should be much more focussed than is currently given. We struggle to see that litigation incurred in the normal course of business is a significant issue for the auditor to highlight and believe the reporting on goodwill is essentially boilerplate.

We welcome the disclosure on financial instruments, specifically the link between what the auditor saw as a risk and their audit approach to cover this risk through involving valuations specialists. We feel that this is the first time in the illustrative Auditor Commentary section that any real additional insight is given to users.

Overall, we do not feel that the proposed disclosures in the Auditor Commentary provide enough guidance to auditors on what should be included and what level of detail is expected. Our concern is that as a result this could lead to non-company specific boilerplate disclosures covering the general approach to goodwill, revenue etc. We believe as financial statements are increasingly filled with unnecessary disclosures, all attempts possible should be made to ensure that the audit report does not add to this problem.



Consideration should be given to providing guidance that says that the expected items included in the Auditor Commentary are more focussed on the performance of the audit, such as materiality and scoping considerations, as these are not currently covered elsewhere in the financial statements and could add insight to users of the financial statements.

**6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance, the timing of financial statements and cost?**

We are concerned that the proposals could start to move the responsibility for making judgements and transparent disclosure thereof away from management and TCWG to the auditors. This should not be allowed to happen, as one of the fundamental roles of management and TCWG is to be responsible for these issues.

We are concerned that in order to keep the responsibility for judgments with management and TCWG, the reporting in the Auditor Commentary will become uninformative, bland and boilerplate in nature. It is likely that additional time and cost will be incurred by preparers and auditors to agree the wording of the report and ensure consistency with the Audit Committee reporting, and we are unsure that the benefits of the reporting will offset this additional cost. As noted in our answer to questions 6, the inclusion of more audit-specific disclosure could be a better way of adding value in the Auditor Commentary without risking the blurring of responsibilities between management, TCWG and the auditors.

**8. What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not?**

We believe that the audit opinion provides implicit approval of the use of the going concern concept and therefore the inclusion of this additional disclosure appears to be repetitive. We understand the need to respond to going concern more explicitly and agree with the move towards increased disclosure in the accounting policies stating how management and TCWG have concluded that company is a going concern. We note however that this disclosure should not be driven solely by the recent financial crisis, as the majority of companies have continued to trade well over the last few years, the significant problems being limited to only a few industry sectors. We do not believe that a broad disclosure around going concern to address a specific issue or industry is relevant, and we suggest that the explicit confirmation of the appropriateness of going concern could be included quite simply in the main opinion provided by the auditor.

**9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgements and process to support the auditor's statement that no material uncertainties have been identified?**

We echo our response to question 8. By providing an unmodified audit opinion, the auditor has implicitly confirmed there are no material uncertainties around going concern. We suggest an explicit confirmation that there are no material uncertainties could simply be included in the opinion paragraph rather than the lengthy disclosure proposed in the illustrative report.

**10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?**

We believe that in principle the proposed disclosure is satisfactory and should enhance the user's knowledge of what an audit consists of, however we are unconvinced that a paragraph of this length needs to be included in every audit report. We believe that a programme of education run either internationally or nationally should be instigated to help users understand the audit process better. This would then reduce the need for this disclosure in each audit report. If the IAASB believe that this disclosure is key, we would suggest that an option is given of a brief sentence stating that the auditor has read (but not audited) the other information for consistency with the audited sections and then refer to a web page hosted by a national standard setter or similar institution for further detail on the process performed.

**11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditors' responsibilities?**

We agree that the descriptions of the responsibilities of management, TCWG and the auditor are helpful to users, however we are not convinced that they should be included in such detail in the body of the audit report. We are also concerned that the expectation gap between what some users think an audit is designed to do and what it actually does could increase as a result of this disclosure. This is because the responsibilities of the auditor appear to be almost three times as long as those of management, running the risk that some users could believe the auditor has more responsibility for the financial statements than management do.

**12. What are your views on the value and impediments of disclosing the name of the engagement partner?**

We support this disclosure, as it places additional personal responsibility on the senior statutory auditor signing the opinion. The UK (and other countries) has already successfully adopted this disclosure.

**13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgement as part of Auditor Commentary?**

We are not convinced of the value of this disclosure in the Auditor Commentary. The group auditor has full responsibility for designing and performing the audit such that sufficient coverage is gained over the performance of the group, and in many cases the auditor responsible for signing the group opinion may not actually audit any of the group's operations, relying on reporting from other audit teams. Under the International Standards on Auditing, the decisions on scoping taken by the group auditor are entirely judgmental in terms of coverage and the use of other auditors, whether that be part of the same network of firms or other auditors. We could understand how the disclosure of coverage of the group's revenue, profit or assets (whichever is the most appropriate benchmark) may give some users additional information on the scope of the audit performed, but do not believe the additional information on the use of other auditors would add any significant insight to users.

**14. What are your views on explicitly allowing the standardised material describing the auditor's responsibilities to be relocated to a website of the appropriate authority or to an appendix to the auditor's report?**

We support this proposal and believe that the auditor's report should be focussed on providing the opinion on the financial statements and any other key information only. By allowing the relocation of such 'boilerplate' disclosures, the key messages in the auditor's

report are clear to users. We note that some auditors in the UK have already adopted this practice, referring to the FRC website which hosts the detailed relevant information. We believe that this approach is a sensible one to cut the clutter in financial statements.

**15. What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users?**

We are supportive of the decision to include the opinion and basis for opinion paragraphs at the front of the illustrative report, as we believe this is the fundamental point of an audit report. We believe that, as drafted, it is likely that the information subsequent to the Auditor Commentary section will be very boilerplate and add little additional value to users understanding of the audit. We recommend that an alternative presentation should be considered which allows substantially all of the boilerplate information to be relocated to an independently hosted website. This will reduce the length of the auditor's report, focus the user on the key information the report is providing and reduce repetition across all company audit reports.

**16. What are your views regarding the need for global consistency in auditors' reports when ISAs or national auditing standards that incorporate or are otherwise based on ISAs are used?**

We support consistency and agree that global consistency for audits performed under ISAs is a positive move. This allows users to easily compare reports for companies registered in different jurisdictions and quickly conclude if there is anything of significance that they should be aware of in that company.

**17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices?**

We support the proposal to mandate the order of items in the auditor's report as we believe this brings consistency to company financial statements and means that users can quickly understand if there is anything significant that the auditor is highlighting to them. We would allow for some flexibility for the inclusion of any national reporting requirements, but would recommend that the key paragraphs (opinion, basis of opinion) are first and second in every auditor's report.