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Investor Relations and Markets Committee

Website submission: www.iaasb.org / www.ifac.org

Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
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Dear Sir

IAASB exposure draft *International Standard on Auditing (ISA) 720 (Revised) The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon. Proposed Consequential and Conforming Amendments to Other ISAs*

We welcome the opportunity to contribute to the proposed changes to the auditor's responsibilities relating to other information. Our key message is that, whilst there is pressure from less well informed sources to increase the scope of auditors involvement in the governance of listed companies, such action blurs the accountability of the directors, who must be held to account to ensure that the accompanying documents are consistent with accompanying financial statements. As directors we fully understand our responsibilities in this area and that our investors punish inconsistent messages by selling their shares, because they do not trust management.

Who we are

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, collectively employing over 7% of the UK workforce and in 2012, paid, or generated, taxes equivalent to 14% 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

The views expressed in this letter are based on our experiences as preparers of financial statements and other information. We recognise that investors and other users of our financial statements are better placed to comment on certain of the questions posed by the exposure draft, including those relating to the content of the audit report.

The relationship between stakeholders and management is based, appropriately, on the principle of 'trust with verification'. If there is a demand from stakeholders that auditors should provide additional comfort over information that is reported to accompany the financial statements (when the primary purpose of that other information is to enhance the users' understanding of the audited financial statements) then this should be well defined and addressed, with careful consideration of the time and costs to be incurred as a result of any increased responsibility and related reporting.

As directors of large complex groups we value the independent audit as it is a fundamental pillar of our risk management and reporting obligations. We are concerned that there is a misconception in the minds of some commentators that directors are seeking to circumvent the auditor or prevent these firms from being able to engage fully with the company. This could not be further from our experience.

However, we are also aware that there appears to be confusion in the minds of users as to who is accountable for the report and accounts and are very concerned that expanding the scope of the reporting requirement will further confuse users. Our members are already fully aware of their obligations to ensure there is consistency between the messages in the documents accompanying financial statements. Our experience is that when companies have failed to do so, investors quickly spot this, and lose trust in management, often resulting in the shares being sold. This is a fundamental disincentive to be inconsistent.

Therefore it is likely that in the vast majority of cases, there will be nothing for auditors to report. As preparers, we have observed a steady increase in the disclosure requirements imposed by accounting standards and other regulation, and financial statements have become increasingly cluttered with incremental disclosures, leading to an inability to properly assess the information being presented. We support removing unnecessary disclosures, including potential shortening of the audit report and removing ambiguity to make it easier to understand and interpret. In our view, the lack of clarity over the responsibilities of the auditor and the boilerplate language suggested in this exposure draft does not meet the criteria we would expect for simplified, coherent reporting.

Importantly, we do not want to give the impression that we do not want the auditors to review the accompanying documents. Our experience is that auditors do this already and bring forward their views and their comments are given very serious consideration by management and boards. Accordingly, we agree, in principle, that auditors should be expected to report any identification of inconsistencies in the financial statements via work undertaken on other, related information if it would have materially misled users. A mechanism of reporting such discrepancy would seem most appropriate to be guided by a form of "reporting by exception".

We are well aware of the need to improve the expectation gap between the auditor and users of the accounts. However, we are unconvinced that the audit report is the right place for communicating information of this nature. The report and accounts is already cluttered and we would prefer to see a link to a web page where relevant disclosure may be made.

Overall, we consider that the current proposals will likely lead to increased costs for preparers, both in audit fees and time spent debating the applicability of other information and the content therein being wholly consistent with the rest of the financial statements. 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: the additional costs compared with the benefits that may accrue to stakeholders should be considered again before updated regulation becomes applicable.

We have addressed some of the specific questions raised in the exposure draft 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



Matthew Lester

Chairman

The 100 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 exposure draft, instead focusing on the ones we consider most significant to our members.

Request for general comments

(a) Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).

We refer to our commentary as detailed in the “Our views” section of this letter, specifically:

- The need for clearly defined responsibilities for the auditors;
- The need to cut clutter from annual reports, including the auditors report; and
- Time and costs involved in the implementation of any regulation.

Request for Specific Comments

1. Do respondents agree that there is a need to strengthen the auditor’s responsibilities with respect to other information? In particular do respondents believe that extending the auditor’s responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?

We are cautiously supportive. We appreciate the need to manage the expectation gap but stress the importance of having clearly defined responsibilities and applicability to what constitutes other information: the costs of implementing this regulation if ambiguity remains would be high and we believe that auditors can highlight such inconsistencies by exception.

2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor’s report thereon is appropriate?

See answer to 1.

3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?

We note there may be some difficulty in defining the “initial release” date. It might be more appropriate for auditors to “read and consider” the other information and report their conclusions as at more than one date.

4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?

We consider that auditor’s involvement with securities offerings should be dealt with separately from requirements for audit.

5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:

(a) Do respondents believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?

See “Our views” section of this letter.

(b) Do respondents believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?

For reasons as defined earlier in this letter, we do not consider the objectives of this proposal are clearly defined as to what the auditor’s responsibility should be in relation to other information. We also voice concern whether any relevant disclosures in relation to the auditor’s findings should be included in detail in the body of the audit report: 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.

6. Do respondents agree that the definitions of terms of “inconsistency” including the concept of omissions and “a material inconsistency in the other information are appropriate?

As drafted, we cannot see how the definition of an “inconsistency” is clear. Although the definition in paragraph 9(a) refers to “information that is incorrect, unreasonable or inappropriate”, paragraph A2 makes clear that this is not the complete definition as it also includes information that is false or misleading. When viewed with the requirement to consider whether the presentation is such as to omit or obscure information, this definition implies a much more thorough level of scrutiny of the other information by auditors than has been the case in the past. This definition needs to be improved.

7. Do respondents believe that users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?

We believe it will not be clear whether the absence of an identified material inconsistency is because there is none, or is because the auditor has not performed the procedures required to determine whether or not there is one.

Furthermore, documents such as those set out in paragraph A12 can contain information on many other issues (for example, information which might have been included in the documents in paragraph A13). It is unlikely that the auditor’s “understanding of the entity and its environment acquired during the course of the audit” would always be sufficient for the auditor to reach any meaningful conclusion in respect of material inconsistencies in such “other information”, and, this blurring of the lines between what the auditor may or may not be responsible for will increase cost if requiring the auditor to extend understanding.

8. Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor's work with respect to the other information? In particular:

(a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?

We would not endorse any changes to regulation which lead to a proliferation of prescriptive disclosures in an attempt at transparency and are, therefore, pleased that the IAASB have adopted a principles-based approach to this proposal.

9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

As guidance, we believe they are helpful but note that companies frequently tailor disclosures to meet the needs of investors, providing additional voluntary information on top of those disclosures required by legislation, either in our audited financial statements or in separate documents on our corporate websites.

11. With respect to reporting:

(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?

The terminology may be clear but we believe that the auditor's report should be focussed and allow the relocation of such boilerplate disclosures, elsewhere. 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.

(b) Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?

See answer to 5 (b).

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

We note there is extensive application material in paragraph A28 onwards. This already seems to amount to requiring the auditor to perform an assurance engagement on the other information. We recognise this may enhance the value of the audit in the eyes of users, but any such expansion of the scope and hence costs of the audit needs to be discussed fully with other stakeholders before implementation.