



The Hundred Group
of Finance Directors

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Dear Sir

Response to the APB's Discussion Paper *The Auditors' Report: A time for change?*

The Hundred Group of Finance Directors represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of companies listed on the London Stock Exchange. Views expressed in this letter are those of The Hundred Group of Finance Directors but are not necessarily those of our individual members or their respective employers. We meet periodically to discuss issues affecting major corporations, and selectively respond to governmental and other consultation exercises where we believe that our role in companies and collective experience give us a particular insight into often complex matters.

We read with interest your consultation document. Set out below is our response to APB's Discussion Paper *The Auditors' Report: A time for change?*

Overall, we believe it is time to change and the APB should take this opportunity, whilst amending the audit report to reflect the Companies Act 2006, to shorten audit reports to make them clearer and less ambiguous.

Over the years audit reports have become longer and more complex and consequently the opinion has become less prominent. We understand the background to this which has led to the current ISA (UK & Ireland) 700 requirements; the ISA has tried to address the expectations gap of what an audit means and what auditors are responsible for. We believe that most users of accounts and those with a reasonable knowledge of business and financial reporting understand the purpose and nature of audit reporting. We therefore believe that much of the material covered under the auditors' responsibilities and basis of audit opinion section could be cut back significantly as set out in Appendix 1. It is important to set out clearly the directors and auditors respective responsibilities for the information included in the annual report and financial statements but we believe these sections can be re-worded to eliminate repetitive wording so that the focus is on what auditors do audit rather than include additional wording covering information which they are only required to report on by exception.

We have provided a marked-up proforma based on the illustrative example set out on pages 19 to 21 of your consultation paper which sets out the wording we think could be eliminated to make the audit report clearer. We have excluded the "bannerman" wording which is concerned with auditors' risk management, as it is outside the APB's remit.

We appreciate that excluding some of this wording may mean that the audit report is no longer in compliance with ISA 700 but we believe this is necessary to achieve greater clarity.

The consultation paper also addresses the question of providing additional non-statutory reporting. We do not believe the audit report should provide any further information because it would only confuse rather than provide additional clarity. As financial reporting becomes even more complex, the degree to which it would be achievable to provide a brief description of say the accounting or alternative accounting treatments adopted, discussion of material areas of judgement and how they are resolved etc is at best difficult to envisage and would require the auditor to take on a different role. The cost benefit implications of this would also need to be investigated. Financial Statements are only one method of communication with investors, albeit a very important method, but there are many other avenues open to investors to gain a deeper understanding of other issues so we do not consider the need to extend the audit report to cover anything else of possible interest to investors.

We hope you find this letter of interest. We would be happy to discuss it further at your convenience.

Yours sincerely



Peter Williams
Chairman of Investor Relations and Markets Committee
The Hundred Group

Appendix 1

(Wording in bold is additional proposed wording; Wording in red should be deleted)

INDEPENDENT AUDITOR'S REPORT TO THE [MEMBERS]/[SHAREHOLDERS] OF XYZ PLC

We have audited the group and parent company financial statements (the "financial statements") of [name of entity] for the year ended ~~which comprise [specify the financial statements, such as the Group Income statement, the Group and Parent Company Balance Sheets, the Group Cash flow Statement, the Group Statement of Changes in Equity/Statement of Recognised Income and Expense, that have been audited] and the related notes set out on pages [] to [].~~ **These group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the parent company financial statements in accordance with UK Accounting Standards (UK GAAP).** ~~These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.~~

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, ~~and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements~~ and the Directors' Remuneration Report in accordance with applicable law and **the above mentioned financial reporting frameworks. United Kingdom Accounting Standards (UK GAAP)** and for being satisfied that the ~~group and parent company~~ financial statements give a true and fair view are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with the relevant legal and regulatory requirements and International Standards of Auditing (UK and Ireland) **and to express an opinion on those financial statements. The Companies Act 2006 also requires us to audit the part of the Directors' Remuneration Report to be audited and to state whether the information given in the Directors' Report is consistent with the financial statements.**

~~We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the relevant financial reporting framework and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. [The information given in the Directors' Report includes that specific presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report].~~

~~In addition we report to you if, in our opinion, the company has not kept adequate accounting records or, if we have not received all the information and explanations we require for our audit, or if disclosures of directors' benefits, remuneration, pensions and compensation for loss of office specified by law are not made.~~

~~We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal~~

control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only [the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement]. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view of the state of group's affairs as at [date] and of the [profit]/[loss] for the year then ended, **the group financial statements** have been properly prepared in accordance with IFRSs as adopted by the EU and **the group financial statements** have been prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation; and
- the parent company financial statements give a true and fair view, **in accordance with United Kingdom Generally Accepted Accounting Practice** of the state of the parent company's affairs as at [date], **the parent company financial statements** have been properly prepared in accordance with UK GAAP and **the parent company financial statements and the part of the Directors' Remuneration Report to be audited** have been prepared in accordance with the Companies Act 2006.
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report is consistent with the financial statements.

[Separate opinion in relation to IFRSs – excluded]

Registered Auditor
[Senior Statutory Auditor]

[Address]
[Date]

