



Improving the Auditor's Report

The ABI's Response to the IAASB's Invitation to Comment

Introduction

The UK Insurance Industry

The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with 28% of its net premium income coming from overseas business.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £147 million in benefits to pensioners and long-term savers as well as £60 million in general insurance claims.

The ABI

The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

The ABI's role is to:

- Be the voice of the UK insurance industry, leading debate and speaking up for insurers.
- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.
- Advocate high standards of customer service within the industry and provide useful information to the public about insurance.
- Promote the benefits of insurance to the government, regulators, policy makers and the public.

Main comments

1. The IAASB's initiative to improve auditor reporting in order to provide more informative disclosure to users of key information around the audit is very welcome. This is a subject on which there has been a strong measure of agreement between investors, companies and auditors. In principle, more information can and should be provided but the challenges in achieving this have been allowed to prevent progress being made. We therefore commend the IAASB in having carried forward this programme to the stage of issuing the Invitation to Comment (ITC) and we are pleased to respond to it.
2. There is a crucial balance to be struck on the extent of transparency that is required by shareholders, investors and other users and the need for frankness and confidentiality in the nature of the relationship between management, auditor and those charged with governance (boards, audit committees etc). This frankness and confidentiality is of benefit to the company and in turn to the body of shareholders. However, progress can and should now be made towards more informative disclosure.
3. The ITC identifies that users have varying reasons for seeking additional information and appear to have different views about what may have the most value:
 - *For example, some users have indicated that there would be considerable value in the auditor highlighting disclosures about the areas in the financial statements the auditor believes are most important. This would provide a "roadmap" to help users better navigate complex financial reports and focus them on matters likely to be important to their decision-making.*
 - *Others believe that the "roadmap" would be more useful if the auditor were to provide additional context to the matters highlighted, such as explaining why the auditor considered the matter to be important from an audit perspective and briefly describing the auditor's procedures and conclusions in those areas. This information has been cited as being particularly useful for areas involving significant judgments by management, which often are the subject of discussion with Those Charged With Governance.*
 - *Still others would like to understand more about how the audit was conducted, and key judgments made by the auditor in planning the audit, such as materiality, the use of experts, or the involvement of other auditors.*
4. We think that all these points are relevant to some degree and that these differing emphases reflect the diverse needs of those who are the legitimate users of audited financial statements.
5. We wish to encourage the professional standards of auditing. Although we are not keen to see proliferation of standardised wording in extended auditor reporting we commend the suggested wording in the illustrative auditor commentary: "As part of an audit .. we exercise professional judgment and maintain professional scepticism through the planning and performing of the audit."

6. The IAASB team will be well aware of the efforts under way in the UK under the Financial Reporting Council's auspices (Effective Company Stewardship) to improve overall reporting on audit-related matters. The focus here is on the audit committee's report as the primary channel of communication of information about the company that is properly the responsibility of the directors to provide. Enhanced reporting by auditors to provide attestation to the accuracy and completeness of such disclosures is still required under this approach, as well as on matters that are rightly the responsibility of the auditor rather than audit committee to provide.
7. We support this initiative by the FRC which we think reduces materially the possibility of any adverse consequences to the constructive relationship between company and auditor arising out of greater transparency around the audit. We believe it would also be less likely than auditor reporting to lead to boiler-plate type reporting that fails to provide useful information to investors.
8. The IAASB's paper does not directly address to what extent the FRC's approach is consistent with its own proposals but we note the references to 'opportunities for tailoring at the national level' that encourage us in this regard. We would urge the IAASB, in taking forward its current proposals, to ensure that there its approach is fully consistent with approaches such as that proposed by the FRC that envisage reporting by boards or management, in the first instance, on matters that relate to the company.

Questions for Consultation

Overall considerations

- 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 costs)? Why or why not?**

Institutional investors believe that these improvements would be a valuable enhancement of the overall reporting to shareholders by auditors. We recognise possible impediments to the process given the likely sensitivity of some of this information, or the way it is communicated to shareholders. It is for this reason that we are attracted to frameworks which allow such information to be transmitted either by the auditor or through reporting by boards and audit committees with relevant attestation, clarification or emphasis by auditors as might be necessary.

We do not think that the IAASB's proposals or variations as outlined above, which will involve committing to paper an account of matters that are already being addressed, need add material cost to the audit.

- 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.**

Enhanced audit committee reporting can supplement improvements to the auditor's report indeed would work better as the primary channel of communication for matters about the company. The auditor would be responsible for communicating matters relevant to the audit and how the audit opinion has been arrived at on matters that are not properly within the scope of the audit committee. We encourage the IAASB to continue to nurture opportunities for tailoring at the national level and be receptive to the input of national authorities.

Auditor commentary

- 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? (See paragraphs 35–64.)**

Yes, we think this is appropriate.

- 4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? 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 Auditor Commentary? (See paragraphs 43–50.)**

Yes, we believe the professional judgment of the auditor is important and that undue restriction on scope for flexibility should be avoided.

- 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? (See paragraphs 58–61.)**

Inevitably, reports from an individual auditing firm will, reflecting both inherent caution and a desire to avoid giving implicit grading of one audit client relative to comparators, tend to take a standardised form. This will tend to restrict the usefulness compared to reporting that originates within the entity and provides a ‘through the eyes of management and board’ perspective.

- 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 (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)**

We are not aware of any reasons why such changes should impose material additional work on the auditor and the impact on costs should therefore not be significant, nor should they create delay.

We agree that it is not for auditors to provide ‘highly subjective’ views about the entity. It is for management or boards to convey via narrative reporting (aka management commentary) fairly and cogently their understanding of such issues. It might be appropriate for auditors to provide views about the quality of financial reporting *in extremis* but opining on whether the accounts provide a true and fair view will normally be the limit of what they should be expected to provide.

The concerns underlying the question would be significantly allayed if the IAASB’s proposals were to envisage either the possibility, or preferably the likelihood, of relevant information being conveyed by boards or management, with a consequent requirement either for appropriate cross-referencing or for additional disclosure in the case of either incompleteness or absence of such information. In jurisdictions where reporting by boards or management is deemed not to be the preferred channel of communication the auditor’s report then providing the relevant information.

- 7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)**

We consider that the scope of the proposals should be listed companies and should, as applicable in the EU, closely follow the definition of companies required to report under IFRS. This is not only because the provision of decision-useful information for those considering transactions on public financial markets in the equity and other securities of often complex companies is important. It is also important for ‘stewardship’ purposes, because ownership in listed companies is widespread giving rise to the greater risk of ‘agency’

concerns. There is a need, therefore, to promote good corporate governance, facilitation of which requires enhanced transparency. Audit is an important component of the governance framework for the companies in which our members invest.

National jurisdictions should be able to extend the scope to cover such additional PIEs as they consider appropriate.

Going concern/ other information

- 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? (See paragraphs 24–34.)**

These statements provide useful information.

- 9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified? (See paragraphs 30–31.)**

These statements provide useful information. As elsewhere, we see it as the responsibility of the company in the first instance to provide relevant information which will enable the auditor to cross-refer or to provide such additional information as he considers necessary.

- 10. What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)**

These statements provide useful information.

Clarifications and transparency

- 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 auditor's responsibilities? (See paragraphs 81–86.)**

We are generally opposed to standardised wording generically being repeated in the audit reports of individual companies. This is information that could easily be provided via a web-based link.

- 12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)**

We believe this is helpful as it will provide a measure of transparency and in reinforcing the individual responsibility of the signing auditor for the provision of the professional opinion as well as that of the firm.

- 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 judgment as part of Auditor Commentary? (See paragraphs 77–80.)**

We think that disclosure within the auditor commentary is indeed appropriate where the audit of subsidiaries by a separate auditing firm is material to the overall group audit but it would be more useful to obtain bespoke information in this regard rather than standardised wording. It is helpful, though, to clarify that the group auditor is solely responsible for the group audit opinion.

- 14. What are your views on explicitly allowing the standardized 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? (See paragraphs 83–84.)**

We agree and would suggest that somewhat more material could be included within the scope of standardized items permitted to be disclosed via the web rather than in each individual audit report.

Form and structure

- 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? (See paragraphs 17–20.)**

We agree that placement of the auditor's opinion at the start of the auditor's commentary would be helpful to users as well as emphasising that the core opinion should continue to be and to be seen to be the most important component of the report.

- 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? (See paragraphs 21–23 and 87–90.)**

We think that a balance will need to be struck here as it is inevitable that the precise definition of audit and auditor responsibilities, and associated governance structures, will differ. Therefore it is likely that standardisation of auditor reporting would be achieved at a lowest common denominator and this would unnecessarily restrict the flow of useful information to investors.

- 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? (See paragraph 17 and Appendix 4.)**

We would prefer to avoid mandating of such items as we think any benefits in so doing would be outweighed by disadvantages of reducing flexibility and would be less likely to ensure that national reporting requirements and practice can be made congruent with the global framework.

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

We consider that these improvements would be appropriate for audits of all companies that are listed on major regulated markets. There is no obvious reason why investors in small- and medium-sized entities will not have an interest in receiving relevant information about the audit even if the actual volume of specific disclosures may be lighter in the case of such entities.

ABI
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