8 October 2012

Our ref: ICAEW Rep 152/12

James Gunn
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The International Auditing and Assurance Standards Board
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Dear James

Improving the Auditor's Report

ICAEW is pleased to respond to your request for comments on the IAASB's Invitation to Comment document entitled *Improving the Auditor's Report.*

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Robert

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ICAEW REP 152/12

ICAEW REPRESENTATION

Improving the Auditor's Report

Memorandum of comment submitted in October 2012 by ICAEW, in response to IAASB's Invitation to Comment document entitled Improving the Auditor's Report published in June 2012

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the Invitation to Comment document *Improving the Auditor's Report* published by IAASB in June 2012, a copy of which is available from this link http://www.ifac.org/publications-resources/improving-auditor-s-report

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. This response reflects consultation with several ICAEW committees, including relevant committees within the Audit and Assurance Faculty, the Corporate Governance Committee, and the Technical Advisory Committee as well individuals from small audit practices, and individuals from the investor and business communities.

SUPPORT FOR THE IAASB's INITIATIVE

5. In recent years, the content of financial statements has become increasingly complex and voluminous. Developments in audit need to track these complexities and auditing standards are updated on an on-going basis. While many areas have changed, the audit report has not and now is the time for change. However, change needs to be undertaken holistically with others, including accounting standard-setters. It should also be remembered that auditors alone cannot, and should not be expected to, solve all problems in the reporting process and the culture of short-term incentives.

6. The IAASB has embarked on an evolutionary project to improve the auditor's report to meet the needs of users, and achieving a reasonable first step is all-important. While some commentators may focus on potential problems of providing additional information, others may believe the IAASB has not gone far enough. Achieving the right balance will be a matter for the IAASB to judge, but generally we support the IAASB's direction of travel in trying to achieve a global solution.

7. It must not be forgotten that shareholders, as owners of companies, are the auditor's ultimate client. All parties connected to listed companies in particular, be they boards and management, investors and other users as well as auditors should continue to work together, sharing insights so that investors and other users can be better informed, governance is improved and confidence in audited financial statements and the value of audit is enhanced.

8. The IAASB's proposals are a challenge that the accountancy profession as a whole will have to rise to. Working with investors and companies, the profession needs to determine how to deliver change that provides what users are seeking in a pragmatic way while avoiding significant increases in costs to companies and additional liability to audit firms.

9. There are a number of initiatives on changing the auditor's report, including those at the European-level, in the UK and in the United States. In the interests of avoiding confusion to users and a lack of comparability on a global basis, it will be vital for all regulators concerned to achieve the best possible harmonisation if the IAASB's approach is to work internationally. We therefore strongly recommend that the IAASB continues to work with law makers (particularly at the European level), regulators and other standard-setters to ensure that all initiatives in this area are sufficiently aligned.

10. Recognising that audit reports for listed companies in the UK, elsewhere in Europe and the US will likely be specified by the initiatives of other regulators and not directly by the IAASB's standards, we suggest that an inclusive approach to standard-setting is taken, which enables ISAs to be widely adopted. It would thus be helpful if the IAASB were to write an ISA that allows some flexibility in applying the agreed framework in a consistent manner at national level. The focus should be to ensure that the information needs of investors are addressed, but with some flexibility on where that information is located, be it in the auditor's report or in the audit committee report.

11. We also urge the IAASB to continue in the leadership role that it is taking on audit reports and to make quick progress to the release of an Exposure Draft that represents the next steps towards a globally consistent audit report. There must be a goal of avoiding two conflicting requirements in the European Union, the result of which would effectively be to undermine the ability of the IAASB's eventual standard to be adopted on a global basis.

12. ICAEW looks forward to working with the IAASB in its efforts to produce a new international standard.

RESPONSES TO SPECIFIC QUESTIONs

Q1: 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?

13. Overall, yes; although we have some concerns which we outline later in this letter.

14. We fully support innovative initiatives that aim to improve the credibility and value of the audit and of the auditor's report. Better communication of relevant information that meets the needs of the owners of listed companies, particularly longer-term institutional investors, is a worthy objective.

15. The direction of the IAASB's overall ideas is therefore to be applauded as it seeks to find a way forward at the start of this evolutionary process. We hope that an important outcome is that more users will read the auditor's report because they see more value in it because it signals important matters to them.

16. The key aspect of the auditor's report is the binary 'pass/fail' true and fair opinion. We believe that this, together with the assessment of going concern, are the most important matters for investors.

17. On the matter of the Auditor Commentary, the IAASB's suggestions make progress in providing information to investors in listed companies. Shining a light on the financial statements and/or the audit is what a number of investors want to enable them to better understand not only what an audit is but also 'what is on the auditor's mind', particularly the significant risks. We also refer to this in our response to question 2.

18. Some shareholders and analysts will want additional information that is not included in the IAASB's proposals, such as the degree of aggressiveness of accounting policies or the materiality levels used by the auditor to better understand the context for audit judgements. While these matters should be further debated by the IAASB, now and in the future as part of this evolutionary process, at this stage we believe that the IAASB is currently trying to achieve a reasonable balance.

19. An impediment to audit firms' ability to deliver this additional information will be their fear of litigation in various jurisdictions around the world. If there is some measure of liability reform, then auditors should be less concerned about providing additional information.

20. While there will be some additional costs, such as extra time spent at senior level in both the audit firm and in the audited entity, it is not currently possible to estimate the magnitude of these costs. If the additional information disclosures made by the auditor are linked to the 'significant risks' that, under existing ISAs, they are already required to provide in their private report to audit committees, then the magnitude of the costs should be reduced.

Q2: 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.

21. Yes. There are at least three other relevant initiatives in this area, being:
- Article 22 of the European Commission's proposed regulation on auditors in the European Union, currently being considered by the European Parliament and the Council of Ministers;
- the UK Financial Reporting Council (FRC) is promoting its own 'governance model' approach in this area; and
- the US PCAOB initiative on auditor reporting.

22. We expect that the IAASB's project will influence national standard-setters, including the FRC and the PCAOB, as well as legislators at the European level as they all work on their own initiatives. It will be vital for all regulators concerned to achieve the best possible alignment if the overall approach is to work internationally in the interests of avoiding confusion to users and a lack of comparability on a global basis.

23. Recognising that audit reports for listed companies in the UK, elsewhere in Europe and the US will likely be specified by the initiatives of these other regulators and not directly by the IAASB's standards, we suggest that an inclusive approach to standard-setting is taken, which enables ISAs to be widely adopted.

24. It would thus be helpful if the IAASB were to write an ISA that allows some flexibility in applying the agreed framework in a consistent manner at national level. The focus should be to ensure that the information needs of investors are addressed, but with some flexibility on where that information is located, be it in the auditor's report or in the audit committee report.

25. We urge the IAASB to quickly make progress with its exposure draft. There must be a goal of avoiding two conflicting requirements in the European Union, the result of which would effectively be to undermine the ability of the IAASB's eventual standard to be adopted on a global basis.

26. A key consideration for the IAASB in its discussions with other standard-setters and legislators is who provides 'original information'. Should there only be information from the board/management upon which the auditor provides commentary, or should the auditor provide his/her own original information?

27. We are aware that a number of investors would like original information direct from the auditor, be it in relation to the financial statements (such as navigation around key aspects of the financial statements) and/or information about the audit, its process and results. Investors want to know 'what is on the mind of the auditor'; ie, where, in the auditor's judgement, the information is important to users' understanding.

28. Some auditors believe that they should not be the original source of information about the entity, and do not support providing additional information about the specific audit engagement. However, working within the UK's corporate governance framework, auditors in the UK generally support some flexibility for adopting alternative means of reporting the same information that achieves the objectives of the IAASB's proposals with some audit firms preferring to replace the auditor commentary with a description of the report made by the audit committee and the auditor's conclusion thereon. This is the FRC's approach, in respect of which the IAASB should consider that the revisions to the ISAs could, in circumstances where an audit committee report includes disclosures or statements relating to matters such as key judgemental areas in the accounting or going concern, allow the auditor to make a statement of concurrence and not be the provider of original information.

29. We accept that the FRC's approach relies on a degree of sophistication of audit committees. On a global basis, there is therefore a concern that audit committees in some countries are not as well developed as in other jurisdictions and the FRC's approach may not be appropriate.

30. As the IAASB is exploring new territory and new thinking, in collaboration with other standard-setters whose remit extends to preparers and others, it could carefully consider the traditional approach of who provides original information.

31. As part of its next steps, we suggest that the IAASB should, in addition to asking auditors, specifically ask investors, audit committee chairmen and preparers for their opinions on whether or not they agree with the 'governance model' approach proposed in the UK. It may be that audit committee chairmen, as well as investors, will be happy that the auditors provide original information.

32. New thinking could also embrace how better use of modern technology can be made to give information to investors to help them focus on aspects of the voluminous information in financial statements. Imaginative use of colour coding (or something similar) and/or links through to notes might be interesting areas to explore.

Q3: 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?

33. Yes, in principle, the concept is appropriate. Under existing ISA requirements, auditors already discuss their biggest challenges with those charged with governance.

34. It is a reasonable request from the owners of companies to have some information about what their auditors are telling those charged with governance. There are however a number of matters that will need to be considered by the IAASB. We outline some of these matters in the following paragraphs.

35. The audit needs to meet the reasonable expectations of investors, but they in turn need to realise how the issue of liability is a legitimate issue for the audit firms. A good understanding of the position of both parties is essential. The IAASB must carefully determine from investors what they find to be the most useful information that can be pragmatically delivered by the audit firms.

36. Auditors, as well as some preparers and investors, worry that the auditor commentary might lessen the clarity of the overall true and fair opinion. It is critical that users appreciate that the additional information is not an amplification of the overall opinion in specific areas and does not detract from the overall true and fair opinion, nor obscure an 'emphasis of matter' paragraph.

37. In our opinion, the use of the 'emphasis of matter' paragraph, as stipulated in ISA 706, should continue for all entities to which the auditor commentary will apply. It should not be replaced by auditor commentary. It would be helpful if the IAASB provide some guidance on a situation where there is both an emphasis of matter paragraph and a mandatory auditor commentary, with the aim of reducing overlap.

38. While the proposed auditor commentary should provide interesting information to users, it will be important that the audit firms feel that users, particularly institutional investors, will read the auditor commentary. The audit firms will be interested to know how investors interpret the information and what use will be made of it. For example, will the auditor of company A which produces greater amount of disclosure than the auditors of company B in their respective auditor commentaries, be viewed differently by investors? Are greater volumes of disclosure a good signal to investors or a sign of problems? It will also be important, from the auditors' perspective, that where a clean opinion is given, information in the auditor commentary is not perceived as 'problems'.

39. From a practical perspective, there will be a learning curve within the audit firms, particularly when trying to ensure some degree of consistency from partner to partner within a firm, both nationally and globally. Users should be aware that auditor judgement is a very personal matter to the individual partners concerned and consistency of reporting in this area may take some considerable time to achieve. It is not easy to explain audit judgments in a few paragraphs particularly as these often relate to the most complex areas of the financial statements where the auditor has exercised his/her professional scepticism and challenged management and those charged with governance to justify the judgements they have taken in preparing the financial statements. There may also be a learning curve for those charged with governance and management in listed companies as they get used to auditors' commenting publicly on aspects of their audit of the company's financial statements.

40. Identifying issues to be included in the auditor commentary is but one challenge for the auditor. Potentially having to succinctly and clearly explain to a wide audience some complex matters about the audit and/or aspects of the financial statements, while avoiding misinterpretation, will be hugely challenging.

Q4: 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?

41. Yes, the matters to be addressed should be left to the auditor's judgement.

42. To assist in the practical application of their professional judgement, it would be helpful for auditors to have some very clear, high-level guidance on what might, and perhaps what might not, be included in the auditor commentary. Clarity and brevity could be an overriding philosophy to help reduce the possible tendency, in an increasingly litigious world, to include too much detail which would have the effect of obscuring the most important matters.

43. It would therefore be helpful to link the matters to be included in the auditor commentary to the 'significant risks' identified by the auditor under existing ISAs. We also suggest that the IAASB may need to provide some additional guidance as to what might be a 'significant risk' to allow some degree of similar interpretation by audit firms. Firms may currently have some different interpretations.

44. There is some concern about boilerplate wording. Recognising the tensions between the desire for consistency, which may drive boilerplate, and the desire for relevance and an understanding of relevant changes in an entity (which is necessarily judgemental and subjective), all parties should avoid boilerplate disclosures as much as possible. It will primarily be the responsibility of the audit firms and their lawyers not to write in such a style, but equally regulators and investors must not drive the behaviour of auditors towards the use of boilerplate with threats of litigation and regulatory sanctions.

45. There will inevitably be some disclosures that hardly change from year to year which could be seen as boilerplate. For example, information about a company's business model, its significant risks and its control systems will not change much from year to year, so there is bound to be some repetition for existing investors. However, we suggest that a new, or potential, investor should find such disclosures to be of use.

Q5: 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?

46. The IAASB will have to gauge the answer to this question based on responses from investors and other users as they do not all want the same information.

47. It will be important to ensure that users do not misinterpret the auditor commentary as providing some specific assurance over the matters outlined therein. Auditors give assurance on the financial statements as a whole and not over individual numbers in, or notes to, the financial statements.

48. It is important to ensure that the examples are seen as purely illustrative and while some of the examples in the IAASB's document contain helpful information, not all of them are particularly strong at illustrating the objectives. The IAASB should think carefully before including examples, if at all, in the main body of the exposure draft.

49. The 'estimates' example provides little information and begs questions about the auditors' range of estimates. Specific information about the auditor's range of estimates is the type of company-specific additional information that many investors may wish to learn about but this is the very information that auditors would be unhappy disclosing because giving a range could give rise to the perception that individual figures were being assured.

50. We are also wary of the 'group auditor' example because, as noted in our response to question 13, the reference to other auditors could raise doubts about the sole responsibility of the group auditor which is a requirement in the European Union as well as in ISA 600.

51. We note that some of the points included in the illustrative examples could be 'emphasis of matter' paragraphs under the current ISA arrangements.

52. The question about including a description of audit procedures and related results in the auditor commentary brings a degree of controversy with a variety of diverse views. At one end of the spectrum, there is the belief that the auditor should not disclose any information about the audit approach, its areas of focus, procedures or the results. Others indicate that only auditor judgements on process should be included in the auditor commentary but not the related results and outcomes.

53. At the other end of the spectrum, those shareholders who want information beyond the binary 'true and fair' opinion will want the auditor's views about outcomes. Information on audit process and procedures alone will be of less use to them.
This will not be an easy area for the IAASB to resolve.

Q6: 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?

54. Whatever the implications may be for those charged with governance and auditors, both parties must not forget that they are accountable to shareholders. Therefore while there may be some increased, hopefully healthy, tensions and dynamics between management, those charged with governance and auditors, which all parties will have to live with; for shareholders the outcome should add value to the financial reporting process. At the same time, management, those charged with governance and auditors will need to avoid a significant impact on their relationship that is so necessary for an effective and efficient audit.

55. As noted our response to question 1, there will be some additional costs, such as extra time spent at senior level in both the audit firm and in the audited entity. It is not currently possible to estimate the magnitude of these costs which are likely to arise at the final stages of the audit because of additional time spent by partners and those charged with governance and management in considering the content of the audit report.

56. If the additional information disclosures provided by the auditor in the auditor commentary are linked to the 'significant risks' that, under existing ISAs, they are already required to provide in their private report to audit committees, then the magnitude of the costs should be reduced. We have some concerns that these costs will be disproportionately large, perhaps significantly so, for smaller listed companies to which we refer in our response to question 7.

57. On the matter of the timing of the release of the audit report, it is likely that the report will only be finalised after the final audit committee or board meeting, and it may take time to discuss if the wording in the auditor commentary is contentious. We suggest that the IAASB talk to listing authorities about potential timing consequences of its proposals.

58. Although not explicitly covered by the IAASB's document, we would caution against making public the private report from the auditor to those charged with governance (ISA 260) as this could potentially undermine how auditors communicate with those charged with governance by making ISA 260 reports less useful and complete and encouraging a potential move to more informal, oral communication.

Q7: 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?

59. There are numerous definitions of Public Interest Entity (PIE). This fact will likely cause confusion and problems of consistency for the application of the auditor commentary. For example, we are aware that law makers, audit and other regulators, individual audit firms and others each have their own definition of what entities are PIEs. If individual audit firms have different definitions, some firms use it to arbitrage some of their clients/potential clients, such that one firm could insist on including an auditor commentary while another firm might not as they would not classify this entity as a PIE. Likewise, the management of an entity could play one audit firm off against another.

60. The primary thrust of the IAASB's paper is directed to the needs of institutional investors and analysts whose main focus is publicly listed companies. We are not aware that users of the financial statements of private companies are pushing for the additional information that might be included in the auditor commentary section of the auditor's report.

61. We therefore strongly suggest that the IAASB should state that the requirement for the Auditor Commentary should apply on a global basis **only** to companies listed on stock exchanges irrespective of whether their listed securities are equity or debt. The IAASB may also wish to consider the situation of Auditor Commentary in the context of an IPO.

62. Even when restricting the definition of PIE to listed companies, the IAASB should also be mindful of the potentially disproportionate cost implications for the significant number of listed companies that are classified as smaller listed companies (as noted in our answer to question 6). The IAASB may, after discussion with investors in this class of companies, wish to consider some form of transitional arrangements for the introduction of the auditor commentary for such smaller listed companies.

63. Beyond the listed company sector, we believe that it should be left to individual jurisdictions to add other entities that they believe to be PIEs, so that a common definition can be adopted in a specific jurisdiction. Such a definition could potentially include entities within the public sector and those bodies in the private sector, such as mutual or community interest companies, which deliver public services and where the body is dependent upon public sector funding for its existence.

For all smaller, non-listed companies, particularly private limited companies, the auditor commentary must be non-mandatory.

Q8: 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?

64. We believe that such statements, whether or not they are regarded by some respondents as boilerplate, are important to investors. We generally support the aim of having auditors comment on the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified. The proposed approach, in theory, turns what is an implicit statement already covered by the requirements of ISA 570 into an explicit statement. An alternative approach, which deserves some consideration, is that of audit committees reporting on going concern and having the auditor make reference to the audit committee report.

65. It is important that any changes to audit reporting need to track changes to financial reporting and thus there is a need for a holistic solution between financial reporting (IFRS) and auditing requirements. Currently there is some mis-alignment between the IFRS framework and the proposed auditing requirements to which we refer to in more detail in our response to question 9. This issue needs to be addressed urgently by the IASB and IAASB.

66. When this mis-alignment has been fully addressed by standard-setters, the outcome could have the beneficial effect of ensuring that even greater attention is paid to this area by those charged with governance, management and auditors.

67. Some other matters for the IAASB to consider are:

- as noted in our comments to question 11, we suggest that the text on the management's responsibilities relating to going concern in a later section be moved to this section;
- there is a need to ensure a good definition of 'material uncertainty' so that it can be consistently interpreted;
- if a material uncertainty exists (ISA 570), use of the 'emphasis of matter' option currently provides the auditor with a powerful tool. Even though it is little used, we suggest that there is a risk that the power of this would be diminished if it were 'lost' in a much longer audit report. The IAASB will need to ensure that sufficient prominence can be given to this important tool in the new audit report; and
- going concern should be assessed from the date of signature of the financial statements, not the balance sheet date.

Q9: 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?

68. The objective 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 is a good, longer-term objective. However, there are some current difficulties that, as outlined in our response to question 8, will need to be urgently addressed by standard-setters in the short term. It is important that any changes to audit reporting track changes to financial reporting.

69. Current IFRSs are not explicit in their requirements that management disclose matters in relation to going concern issues and related material uncertainties. In the absence of such requirements in IFRS, management are more likely to be reluctant to disclose material uncertainties.

70. While auditors can put pressure on management to make the necessary disclosures, with the possible threat of a qualified audit opinion which would draw attention to the matter, a much more satisfactory solution would be to ensure that IFRS and auditing standards are aligned. Auditing standards should not get ahead of financial reporting standards that primarily drive the disclosures made by preparers. There needs to be a holistic solution.

Q10: What are your views on the value and impediments of the suggested auditor statement in relation to other information?

In the UK, auditors are already familiar with providing such a statement through a combination of the local legal requirements and the requirements of ISA (UK & Ireland) 700. The requirement does not appear to cause undue difficulty in the UK.

Q11: 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?

71. While the wording of these responsibility statements is important to help address expectation gaps and for users to understand the respective responsibilities of management, those charged with governance and auditors, the inclusion of all the suggested wording in the audit report only serves to unnecessarily lengthen the report and much of it is now boilerplate.

72. We suggest that this information is removed from the audit report and a link provided to a website, be it of a national standard-setter or perhaps that of the IAASB, where more detail can be found. Where appropriate, the wording should aim to address expectation gaps including those that may potentially arise as a result of the IAASB's proposals for audit reports. This website link approach has worked well in the UK where it is currently allowed under ISA (UK & Ireland) 700.

73. There are potentially two exceptions to removing all the wording to a separate website:

1. To reinforce users' perceptions of professional audit behaviour, we suggest that the IAASB consult with investors on whether or not they would like to see the auditor state that 'As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism through the planning and performing of the audit.'
2. To include the text on management's responsibilities relating to going concern in that section of the report which is currently cross-referenced.

Q12: What are your views on the value and impediments of disclosing the name of the engagement partner?

74. Under the Statutory Audit Directive in the EU, the name of the audit partner is already disclosed.

75. We support disclosure, but note that there are circumstances where it may be inappropriate for this disclosure to be made, for instance where the personal safety of the auditor may be threatened by disclosure.

Q13: 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?

76. The Statutory Audit Directive in the EU and ISA 600 require the group auditor of the consolidated accounts of a group of companies to have full responsibility for the audit opinion. While this requirement may not be the same in all other jurisdictions (e.g. the United States), we believe that any additional disclosures of the audit firms involved must not dilute the impression of the overall responsibility of the group auditor. There must be no impression of divided responsibility.

77. If investors and regulators were to insist on some such information, for example where a non-network firm undertakes a significant proportion of the overall work, we suggest that the provision of such a list should solely be left to the group auditor's judgement where he/she believes users would find this information to be of genuine interest. Any requirement to disclose the proportion of work done by non-network firms could have the unintended consequence of auditors insisting that all audit work is performed by network firms therefore reducing competition and diversity in the audit market.

Q14: 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 our answer to question 11. We prefer the web-link to the appendix approach.

Q15: 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?

78. We agree with the proposed structure. We strongly believe that the auditor's opinion should be at the start of the report as it will help to put any subsequent comments in the auditor commentary in context of the overall 'pass/fail' opinion.

Q16: 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?

79. Global consistency in the core elements of audit reports, based on ISAs, is a laudable longer-term objective and the IAASB's proposals will help in this respect.

80. However, it must be recognised that the objective may take some time to achieve as local reporting requirements are deeply ingrained.

81. Outside the core elements of the report, there should be sufficient flexibility to allow individual jurisdictions to include their relevant legal requirements (such as reporting on directors' remuneration in the UK) that may not be required in other jurisdictions.

Q17: 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?

82. If mandating the ordering of items, in a manner similar to that shown in the illustrative report, helps in the longer term towards global consistency, then we agree provided it is a principles-based approach that allows sufficient flexibility for national standard-setters to put forward their local ways of reporting within the IAASB's overall framework.

83. National standard-setters are best able to comment on whether or not this provides sufficient flexibility to accommodate national reporting requirements or practices. From a UK perspective, the FRC will have to satisfy itself that its proposals are acceptable to all its UK reporting and governance stakeholders and then ensure its proposals fit the IAASB's overall international framework.

Q18: 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?

SMEs

84. As stated in our response to question 7, for all smaller, non-listed companies, particularly private companies, the auditor commentary must be non-mandatory.

Public sector

85. There will always be the need to account for the use of tax-payers' money in the public sector and the standard audit report supports this. In addition, auditors in the public sector also respond to wider issues such as through regularity and probity work and general and specific coverage on 'value for money', as well as having a wider duty on such matters as 'public interest reports'.

86. The IAASB could explore how the experience and willingness of public sector auditors to make public pronouncements on an organisation's performance could be relevant to the listed company market.

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