



**The Hundred Group**  
of Finance Directors

## Investor Relations and Markets Committee

Website submission: [www.iaasb.org](http://www.iaasb.org)

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York,  
New York 10017  
USA

16 September 2011

Dear Sir

### **Consultation Paper – Enhancing the Value of Auditor Reporting: Exploring Options for Change**

We have been following the recent debate about the role of the auditor and have previously taken the opportunity to respond to a number of public consultations seeking views on this and related issues<sup>1</sup>. Certain of these consultations have proposed solutions at the national level which in our view fails to take into account the current structures of either audit firms or our members businesses, which operate along the lines of geographically diverse international networks. Consequently we endorse a review of an international auditing standard base which is aligned with our operating model as truly international businesses. As Directors we take comfort that all our companies are audited to the same basic levels.

### **Who we are**

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

### **Our views**

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

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<sup>1</sup> EU AUDIT POLICY - Audit Tendering processes and costs (13 June 2011); EU Call for Evidence - Lessons from a Crisis (20 December 2010). These are available on our website [www.100groupfd.co.uk](http://www.100groupfd.co.uk)

In overview, we are supportive of the current role of the auditors and the value brought to our shareholders through the financial statement audit and the independent auditors report. Any changes in regulation that occur as a consequence of this consultation must be to promote and enhance the quality and relevance of audit.

As an overarching principle we would warn against any changes to regulation which lead to a proliferation of prescriptive disclosures in an attempt at transparency. As preparers, we have observed a steady increase in the disclosure requirements imposed by accounting standards and other regulations. Indeed there is an argument that financial statements have become so cluttered with incremental disclosures that the ability of a reader to 'see the wood from the trees' has become compromised leading to an inability to properly assess the information being presented. Many of our members report that over recent years, the number of pages in their Annual Report has doubled whilst at the same time there has been a reduction in the number of people who want to receive it.

We would also caution against any developments which will, either directly or indirectly, affect the relationship between the auditors and the Audit Committee. The frank, open and challenging relationship which is demonstrated in our Audit Committees is one which both management and non-executives value and is, in our view, effective at appropriately challenging management and auditors. We would therefore not be in favour of proposals which had the – albeit unintended – consequence of reducing the quality of, or level of detail in, the dialogue between the auditor and the audit committee.

### **Expectation gap**

We do not seek to assume users' level of knowledge over the audit methodology, however we can see how a gap may exist between the understanding of the role of the auditor and the reality for some investors. We supported changes made in the UK by the APB in 2010 which had the effect of shortening the audit report and removing some ambiguity and we continue to welcome measures which provide more clarity as to the nature and extent of the audit and the respective roles of the Directors and auditors.

We see no reason why the auditor's approach should not be better explained (in particular the materiality levels applied by the auditor and the international scope of work which supports the opinion on the group financial statements) however moves to disclose this information would act against previous initiatives to shorten audit reports and may obscure the opinion being given by the auditor.

We would also point out that no amount of additional information can ever completely eliminate the risk associated with investing in equities. Neither the audit, nor additional disclosure should be considered an insurance policy against future corporate failure, but instead as a tool to allow investors to understand the risks involved with investing in equities and match their investment decisions to their individual risk appetite.

### **Information gap**

As Directors of large international companies we understand the importance of stakeholder dialogue. We believe it is our duty to provide investors with sufficient, appropriate information to make informed investment decisions and we frequently tailor our disclosures to the meet the needs of our 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.

Our audited financial statements already include information such as key business and operational risks, significant judgements and estimates used in preparing the financial information, significant unusual transactions, key accounting policies and changes thereto and the effectiveness of the company's corporate governance structure.

To the extent that an information gap exists as a result of information capable of being provided by management, in our view this is more likely to arise as a result of the increasingly complex financial reporting environment imposed on us by International Financial Reporting Standards and other regulations, which provide prescriptive rules as to the accounting for specific transactions, which do not always reflect the economic substance.

### **Auditor commentary on matters significant to users' understanding of the audited financial statements, or of the audit**

In our view, to require auditors to report directly on the areas noted above (rather than on management's own reporting thereon) by providing details of their own risk assessment or detailed commentary on other aspects of the business would at best be repetitive for stakeholders, and at worst fundamentally undermine the relationship between Directors and investors. The auditors are not responsible for, nor should be requested to disclose information over, the strategy and management of the company. We strongly believe that it is the responsibility of Directors to report on these matters, and where appropriate for auditors to verify the report made by Directors. In our opinion any changes to this model would destabilise the current and appropriate corporate governance structure.

We are familiar with the concept of the French 'justification of assessments' report and agree with the observation that over time, this report has become increasingly boiler plate, with the result that its usefulness has diminished and no longer justifies the additional cost that arises from its preparation. We recommend that the Board pays particular attention to the response of the audit firms as to the likely cost of preparing such a report, having regard to the current audit arrangements in the UK which result in most audit contracts not allowing for a limitation of the firm's liability.

### **An Enhanced Corporate Governance Reporting Model: Role of Those Charged with Governance Regarding Financial Reporting and the External Audit**

We are pleased to see references to the operation of UK Audit Committees in the consultation document. In our view this model provides the appropriate challenge to the audit arrangements and results in an appropriate dialogue between the Audit Committee and the auditors, also providing the opportunity for the Audit Committee to interact with the auditors in the absence of management.

We would be concerned that any moves to require the Audit Committee to publish its own report would invite the inclusion in the financial statements of boiler plate disclosures which do not improve transparency. The Audit Committee relies to a certain extent on the report of the auditor in forming its own conclusion on the financial statements. To additionally require the auditors to opine on an Audit Committee report creates circular reporting which is at best unnecessary and at worst undermines the relationship between the auditor and the Audit Committee.

We understand the consideration of the German 'long-form' report and endorse a wide review of current practice in order to embrace the best in class behaviours on a global basis. However, we are not aware that, as a result of the requirements of this report, the audits of our German counterparts employ different or extended procedures which result in an audit of enhanced quality, which should surely be the aim. Consequently we think that it should be a

matter for the Audit Committee to decide based on their own requirements and should not be determined by public policy.

**Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit**

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 additional information relevant to the understanding of the Company's performance then this should be first defined and then addressed, although at a time of economic uncertainty and where budgets are tight, the additional cost of such reports compared with the benefits that will accrue to stakeholders will need to be assessed.

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*