

5 October 2012

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Dear Sirs,

The CBI welcomes the opportunity to respond to the **Invitation to Comment – Improving the Auditor's Report**. The CBI is the premier voice for business in the UK; our membership comprises businesses, investors and providers of audit services so we have a broad interest in this consultation. This response sets out the perspective of our business members.

CBI believes the IAASB has identified the right problems with the auditor's report. It is essential for users of financial statements that auditor's reports are relevant and clear. We also agree that there is an 'expectations gap' with regard to the scope of the audit and role of the auditor which needs to be addressed. However, we are concerned that the issues are being addressed through the auditor and not through the 'governance model'.

CBI members think that new reporting requirements should lead to concise reports. Although transparency is a desirable aim, a significant increase in volume of disclosure can sometimes lie counter to clarity. Disclosing too much information can cloud the important information for users. It is vital that changes ensure that reports are clear.

The CBI has two main concerns with the proposal for the auditor's report to highlight matters that, in the auditor's judgement are the most important to users' understanding of the audited financial statements or the audit:

- First, it is not the auditor's role to highlight matters that are important to users. This is a management role and should therefore be carried out by the Company Directors.
- Second, we believe this would lead to duplication as the auditor would report on information already reported by the Directors.

We believe that the 'governance model' used by the Financial Reporting Council in the UK is the right avenue to bring about change. The audit committee should play a key role in explaining the areas that are of interest to shareholders. It is the role of the Directors and not the auditor to provide information on the company. The audit committee should report on the key judgements and this should be sufficient for shareholders. Were the auditor also to provide this information it would be duplicative and more likely to be boilerplate.

The auditor should not report information that has not been provided by the Directors, unless the auditor believes that its absence from the annual report is materially misleading. Moreover, the auditor should not be required to report what he/she thinks might be important over and above



Matthew Fell Director, Competitive Markets
DL: 020 7393 8044 **E:** matthew.fell@cbi.org.uk

CBI Centre Point 103 New Oxford Street London WC1A 1DU
T: +44 (0)20 7379 7400 **F:** +44 (0)20 7240 1578 **W:** www.cbi.org.uk
Director-General: John Cridland CBE President: Sir Roger Carr

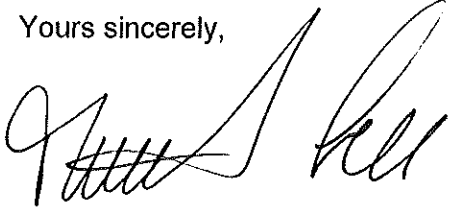
Registered No: RC000139 (England and Wales) Registered Office: CBI Centre Point 103 New Oxford Street London WC1A 1DU

what the company is reporting; this could just create confusion with users about who had responsibility for the content of the annual report.

Another area of concern for CBI members is confidentiality. Audit committees must be allowed a degree of confidentiality around their reports or they may shy away from discussing certain issues. The IAASB needs to get this balance right between requiring useful information to be reported without constraining discussions.

We would urge the IAASB to address these issues before further decisions are taken.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Matthew Fell', written in a cursive style.

Matthew Fell
Director, Competitive Markets