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Dear James

Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs)

1. The Financial Reporting Council (FRC) welcomes the opportunity to comment on the IAASB's Exposure Draft "Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs)". The FRC continues to be strongly supportive of the IAASB's proposals, in principle, as it too is aware of demand from investors, and other users, to close the so-called information gap relating to insights about the Company and its financial information, and about the audit from the perspective of the auditor.

Strong support for paragraphs 46 to 48 of proposed revised ISA 700

2. In the UK and Ireland, as in certain other European countries, we are aware that auditors are required to report in accordance with their national law and auditing standards and also to comply with the ISAs in the conduct of all other aspects of their audit. We, therefore, strongly support the proposed requirements in paragraphs 46 to 48 of proposed revised ISA 700 which establish the minimum elements which an auditor's report must include in order for the auditor to be able to assert compliance with the ISAs. To the extent that UK and Irish law and national auditing standards require or permit these elements to be included in an auditor's report (which they presently do), UK and Irish auditors would be able to comply with both local law and national standards and to assert compliance with the ISAs.

Five important aspects of the IAASB's proposals where the FRC seeks changes or improvements to the proposed requirements

3. Although the FRC is strongly supportive of the IAASB's proposals there are five important aspects of them where the FRC seeks changes or improvements to the proposed requirements. These five aspects are as follows:

The proposed ISA 701 needs to be more prescriptive regarding the minimum content of the description in the auditor's report of each key audit matter

4. Paragraph 10 of proposed ISA 701 establishes requirements for the way in which “key audit matters” (KAMs), as defined, should be described in the auditor’s report. It requires:

“The description of each key audit matter shall include:
(a) An explanation of why the auditor considered the matter to be one of most significance in the audit and, to the extent the auditor considers it necessary as part of this explanation, its effect on the audit; and
(b) A reference to the related disclosure(s) if any in the financial statements.”

5. We appreciate the importance of the auditor being required to exercise its own judgment when describing KAMs. However, we are concerned that these proposed requirements are rather minimal and may fail to achieve the outcome that the IAASB is hoping for in the content of auditor’s reports.
6. We are of the view that much of the explanatory material presently proposed to be included in paragraph A31 could usefully be elevated to the status of being a requirement. In this way we believe that it is more likely that KAMs will provide the insights that users are looking for and that they will be described consistently in auditor’s reports.

The proposed ISA 700 should require the auditor's reports of listed companies to include information concerning the scope of the audit and the way in which the scope was influenced by the auditor's risk assessment and application of the concept of materiality

7. The FRC disagrees with the position taken by the IAASB with respect to the auditor communicating planning and scoping matters in the auditor’s report. The inference from paragraphs A1 to A8 of proposed ISA 701 is that users of financial statements and auditor’s reports would have little interest in the auditor’s risk assessment, assessment of materiality and their impact on the scope of the audit.
8. However, based on our own extensive outreach, which showed that there is considerable interest in such matters, we have introduced requirements for listed entities to:
- (a) Describe those assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team;
 - (b) Provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit; and
 - (c) Provide an overview of the scope of the audit.

We encourage the IAASB to include similar requirements in the ISAs. The FRC recognizes that paragraph A8 of proposed revised ISA 706 acknowledges that auditors may be required by national law or regulation, or may choose, to provide information of this type in the auditor’s report as other information paragraphs. However, the FRC considers that there can be little basis for judging such information to be appropriate in some circumstances but not in others and this will, in effect, be a choice for the auditor rather than a professional judgment. The FRC, therefore, believes a requirement is necessary in order to achieve consistency and to meet the expectations of many users.

The requirement to describe the key audit matters in the auditor’s report or to refer to such a description is unnecessary where the auditor is satisfied that such matters have been appropriately disclosed in the Annual Report by those charged with governance.

9. Paragraph 46(g) of proposed ISA 700 (Revised) requires:

“...in circumstances where law or regulation either requires or permits the auditor or those charged with governance to prepare a separate report including a description of such information, this section either includes a description of the key audit matters, or refers to such a description in a report issued by those charged with governance, or in a supplementary report of the auditor”.

10. Under the UK Corporate Governance Code the Annual Reports of listed companies that report on how they have applied the UK Corporate Governance Code will include an audit committee report that includes “the significant issues that the committee considered in relation to the financial statements and how these issues were addressed”. The auditor is required by the ISAs (UK and Ireland) to communicate its views on various matters to the audit committee and to report by exception in the auditor’s report if the audit committee report does not appropriately disclose any matters communicated by the auditor to the audit committee. The matters disclosed by the auditor to the audit committee are intended to include all KAMs (as defined) but the audit committee report may deal with other matters too and is not required to identify which of the matters included in the audit committee’s report are KAMs per se. In order to comply with paragraph 46(g), therefore, UK and Irish auditors would at a minimum be required to provide a cross reference to identify the KAMs in the audit committee report. However, as drafted this may give the impression that repeating the KAMs in the auditor’s report is the preferred approach.

11. The FRC recommends that the requirements in paragraph 46(g) should be amended to require the auditor’s report, where necessary, to identify the KAMs in the separate report prepared by those charged with governance or to include a description of the KAMs. This would avoid giving the impression that any duplication between the auditor’s report and the separate report by those charged with governance is necessary.

The paragraphs describing the responsibilities of the auditor which are required to be included in the auditor’s report should be permitted to be omitted from the auditor’s report if this information is included in a description of the auditor’s responsibilities maintained on a web-site which is cross referred to from the auditor’s report?

12. Although proposed ISA 700 permits the description of the scope of an audit to be set out on the website of an appropriate authority (see paragraph 40) it also requires wording along the following lines to be included in the auditor’s report itself.

The objectives of our audit are to obtain reasonable assurance about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK and Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these group financial statements.

13. Mandating certain wording to be included in the body of the auditor's report whilst permitting the remainder of the description to be described on a web-site somewhat defeats the objective of removing standardized wording from the auditor's report. It also gives special prominence to the wording required to be included in the auditor's report. The above text that is required in the report is not in the FRC's view more important than the remaining description of the auditor's responsibilities and may be seen as the auditor seeking to caveat its responsibilities. The FRC recommends that all of the responsibilities of the auditor should be permitted to be described in the description of the scope of the audit which may be cross referred to from the auditor's report.

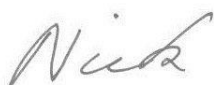
The auditor should be required to clearly distinguish between those KAMs which in the auditor's judgment are fundamental to users' understanding of the financial statements and those that are not

14. We are concerned that the IAASB's proposals do not fully take into account the important definitional difference between an Emphasis of Matter and a KAM. Under the IAASB's proposals the auditor's report would not reveal the auditor's insight as to which, if any of the KAMs reported were in the auditor's judgment fundamental to users' understanding of the financial statements. We strongly recommend that the auditor should be required to clearly distinguish between those KAMs which address matters that in the auditor's judgment are fundamental to users' understanding of the financial statements and those that are not. We elaborate our reasoning in our response to question 6 in the Appendix.

Responses to the IAASB's detailed questions

15. Our responses to the detailed questions set out in the Exposure Draft follow in the Appendix. If it would be helpful, we would be pleased to elaborate on our comments and our responses to your questions with you at your convenience.

Yours sincerely



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About the FRC

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

Appendix – Responses to the specific questions raised in the Exposure Draft

Key Audit Matters

- 1. Do users of the audited financial statements believe that the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor’s report? If not, why?**

This question is not directly applicable to the FRC as the FRC is not, itself, a user of audited financial statements. However, our outreach indicates that in principle users are strongly supportive of this reform.

- 2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor’s judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?**

The FRC is supportive of the proposed requirement and related application material in proposed ISA 701 with respect to the auditor’s determination of KAMs. These requirements are appropriate to the IAASB’s way of closing the information gap through additional disclosure in the auditor’s report.

In the UK, by contrast, the information gap is closed by requiring the auditor to report to the audit committee the information that it believes is relevant to the board and the audit committee in the context of fulfilling their responsibilities under the UK Corporate Governance Code. The auditor’s responsibility is then to report by exception where the report of the audit committee (in the Annual Report) does not appropriately disclose any matters communicated by the auditor to the audit committee that in the auditor’s judgment should have been disclosed. (We regard this as broadly equivalent to the requirement to determine KAMs by reference to the concept of areas of significant auditor attention in paragraph 8 of proposed ISA 701). Our requirements link the auditor’s reporting responsibility to the directors’ responsibility for the annual report, in the context of the information needs of users, including that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity’s performance, business model and strategy.

We would encourage the IAASB to consider whether a similar approach would be possible in the proposed ISAs that would reinforce the link to users’ information needs (discussed in paragraphs 2, 3, A4 and A5 of proposed ISA 701) and provide a more direct link between the concept of KAM and the information needs of users. From our outreach in the UK some users have indicated to us that they see value in auditor’s taking different approaches to what KAM’s are. This is because, in their view, the distinctions between different auditors may provide users with insight into audit quality and the mindset of the auditor.

- 3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of**

individual key audit matters to be communicated in the auditor's report? If not, why?

We reiterate our comments in paragraphs 4 to 6 of the covering letter. We appreciate the importance of the auditor being required to exercise its own judgment when describing KAMs. However, we are concerned that the requirements set out in paragraph 10 of proposed ISA 701 are too minimal and, consequently, may fail to achieve reasonably consistent auditor judgments about what matters should be included in the description of the KAMs.

The FRC recommends that much of the explanatory material presently proposed to be included in paragraph A31 and some of the material in paragraphs A38 and A41 of proposed ISA 701 could usefully be elevated to the status of being a requirement. This would strengthen the requirements for the description of KAMs and, in the FRC's view, would also help to promote more consistent auditor judgments about what matters are determined to be KAMs and how they are described.

- 4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.**

The FRC does not support the provision of illustrative examples of KAMs. This is because the FRC is of the view that the provision of such examples may give rise to auditor's reports containing standardized language. The FRC believes that audit engagement partners should be capable of describing KAMs in auditor's reports in an entity specific manner without the need for illustrative examples to guide them.

- 5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?**

The FRC agrees with the approach taken by the IAASB in relation to KAMs for entities for which the auditor is not required to provide such communication. We have nothing further to add in relation to question 5.

- 6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?**
- a. If so, do respondents agree with the proposed requirements addressing such circumstances?**
 - b. If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the**

determination, in the auditor's professional judgment, that there are no key audit matters to communicate?

Although the circumstances are likely to be rare, the FRC believes that it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no KAMs to communicate. The FRC further agrees that in such circumstances there should be a statement in the auditor's report that there are no such matters to report.

7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

The FRC is of the view that the answer to this question varies depending on how many financial periods the auditor's report is intended to cover. In the UK and Ireland, in the normal course, the auditor reports on the most recent financial period and not on the period to which the comparative information relates. In this circumstance, the IAASB's proposal to limit the discussion of KAMs to the most recent financial period is appropriate. However, we are aware that in some jurisdictions the auditor's report covers all financial periods presented in the primary financial statements. In the UK and Ireland in the context of prospectuses reporting accountants often report on track records relating to three or more financial periods.

Although the IAASB's proposal is suitable for UK and Ireland Annual Accounts the FRC is, nevertheless, of the view that the auditor's communication of key audit matters should relate to all the financial periods that the auditor is reporting on in the auditor's report. If the KAMs do not relate to all financial periods reported on then, in our view, the auditor's report would be incomplete. The FRC does, however, recognize that consideration will need to be given as to whether there should be a requirement to update Key Audit Matters for previous periods and to explain how they relate to the Key Audit Matters for the current period.

As a minimum the FRC recommends that the IAASB's proposals should require the communication of KAMs relating to prior periods when:

- The prior period's financial statements are made public for the first time, such as in an initial public offering; or
- Issuing an auditor's report on prior period's financial statements because the previously issued auditor's report can no longer be relied upon.

We note that this is the approach the PCAOB has adopted in its recent proposals.

8. Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the proposed ISAs? If not, why?

The FRC concurs with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs. However we do have concerns about the manner in which the concepts have been differentiated in the proposed ISAs.

Emphasis of Matter paragraphs

We are concerned that the IAASB's proposals do not fully take into account the definitional difference between an Emphasis of Matter and a KAM. Under extant standards an Emphasis of Matter paragraph is included in relation to a matter that in the auditor's judgment is: "*of such importance that it is fundamental to users' understanding of the financial statements*". The FRC is of the view that being fundamental to a user's understanding is a higher bar than a KAM which, although by nature will have been of significance to the audit, is not necessarily fundamental to a users' understanding of the financial statements. The auditor's report would, therefore, not reveal the auditor's insight as to which, if any, of the KAMs reported were in the auditor's judgment fundamental to users' understanding of the financial statements.

Having recognised the importance of Emphasis of Matter paragraphs, we also note that disclosures of KAM are likely to be fuller and more revealing than Emphasis of Matter paragraphs because an Emphasis of Matter paragraph can only cross refer to a matter presented or disclosed in the financial statements. We can see that the IAASB's proposal seeks to avoid duplication when a matter would be judged to be both a KAM and to be fundamental to users' understanding of the financial statements. Although we would not object to the limited duplication that would result in the auditor's report in the relatively infrequent circumstances in which that may arise, if duplication is to be avoided we prefer the IAASB's proposal that would require such a matter to be treated only as a KAM (with no Emphasis of Matter paragraph) because we believe that the inverse may result in a loss of insight for users. However, if this approach is taken, we strongly advocate that the auditor should be required to distinguish clearly between those KAMs, if any, which address matters that in the auditor's judgment are fundamental to users' understanding of the financial statements and those that are not.

For similar reasons, the FRC is also of the view that going concern material uncertainties which, by their nature are fundamental to users' understanding of the financial statements, should also be given prominence within the going concern section of the auditor's report.

Other Matter paragraphs

In paragraphs 7 and 8 of the covering letter, we recommend that the IAASB should amend its proposals to require the auditor's reports of listed companies to include information concerning the scope of the audit and the way in which the scope was influenced by the auditor's risk assessment and application of the concept of materiality. In this regard, we note that in paragraph 79 of the Exposure Draft the IAASB states:

"[we do] not believe certain matters related to the planning and scoping of the audit (such as a description of the materiality applied to the engagement) would meet the definition of a key audit matter. In light of feedback from respondents to the ITC, the IAASB does not consider it appropriate to establish a requirement for the auditor to disclose such matters in the auditor's report. Nevertheless, the auditor may judge it appropriate or be required by law or regulation, to do so in an Other Matter paragraph".

The FRC does not agree with the IAASB's approach which implies that the definition of KAMs would exclude information, included in the auditor's report, about the auditor's risk assessment, materiality and scope of the audit from the definition.

Rather, we consider that the definition conceptually includes these matters, if the auditor considers them to be of most significance in the audit. The FRC believes that there may be situations where, absent the comments in paragraph 79 of the ED referred to above, the auditor may conclude these are KAMs. Nonetheless we believe that generally there would be little basis for the auditor to judge them to be KAM in one case but not in another.

Accordingly, we believe they should be required KAMs in all cases, if it is agreed that they are appropriate to be included in the auditor's report. However, if the IAASB's approach to KAMs in paragraph 79 prevails, the FRC believes that they should be required Other Matter paragraphs or, if not mandated at all, the FRC strongly supports retaining the concept of Other Matter paragraphs so as to provide a placeholder in the auditor's report for information that the FRC requires auditors to provide in the auditor's report about these matters..

Going Concern

9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:

- a. The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?
- b. Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?

In this regard the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

With respect to illustrations 1 and 2 in the Appendix of proposed ISA 570 (Revised) the FRC is broadly in agreement with the Going Concern element of the auditor's reports. We do however have some suggestions for improvement. The FRC has more serious concerns about the adverse opinion in illustration 3.

With respect to illustrations 1 and 2 the FRC recommends that the paragraph headed "Going Concern Basis of Accounting" be re-ordered as follows:

~~The material uncertainty identified above does not indicate that the going concern basis of accounting is inappropriate. The Company's financial statements have been prepared using the going concern basis of accounting. The use of the going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements As management has indicated that it has no such intentions and we have concluded it has realistic alternatives to doing so, we have further concluded that the material uncertainty described above does not indicate that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is inappropriate, despite the material uncertainty described above.~~

With respect to illustration 2, the FRC further recommends that the Basis for Qualified Opinion should provide more information about the quantum of the financing arrangements that are about to expire and their relationship to the

Company's overall financing arrangements. A cross reference to the relevant footnote to the accounts would also be helpful to readers of the auditor's report. This information would assist readers of the auditor's report to understand why the material uncertainty does not threaten the going concern basis of accounting.

With respect to illustration 3 we believe that the facts as described in the basis for adverse opinion are more likely to lead to the conclusion that the going concern basis is inappropriate (rather than appropriate).

10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

The following response sets out the FRC's views in the context of the IAASB's proposals. In that context, the FRC is of the view that an explicit statement that explains why neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in all auditor's reports on financial statements that are prepared on the basis of the entity continuing as a going concern. Further to the discussion in paragraph 88 of the Exposure Draft, the FRC believe that such a statement is equally helpful in all situations where the going concern basis has been adopted, including those where a material uncertainty has been identified.

The FRC is generally averse to statements being included in auditor's reports that are intended or may be seen as seeking to limit the auditor's liability or responsibility. These generally have little or no information value for users of the auditor's report. In this case, however, the FRC believes that it is important that users of the auditor's report appreciate that both the management's and the auditor's assessments of going concern are forward looking and, therefore, necessarily uncertain. The FRC recommends making the caveat more explanatory and in particular to set out that assessments of going concern are forward looking and therefore necessarily uncertain.

The identification of a material uncertainty does not, of itself, diminish the inherent uncertainty and therefore the explicit statement may be equally valid when a material uncertainty is identified. However, we recognize that the statement could be more complicated to explain in these circumstances, as it would relate primarily to other matters that have not been identified as going concern material uncertainties.

The FRC has recently published a Consultation Paper entitled "Risk Management, Internal Control and the Going Concern Basis of Accounting" which includes, among other things, a comprehensive re-appraisal of going concern reporting by both those charged with governance and auditors. Dependent on the outcome of the FRC's Consultation, going concern basis of accounting reporting under the ISAs (UK and Ireland), for entities that apply the UK Corporate Governance Code, is likely to be augmented with reporting on a wider, stewardship based, assessment of solvency and liquidity risks.

Compliance with Independence and Other Relevant Ethical Requirements

11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

In the UK and Ireland, ISA (UK and Ireland) 700 already requires auditor's reports to state that ISAs (UK and Ireland) require the auditor to comply with the FRC's Ethical Standards for Auditors. In order to meet the requirements in proposed ISA 700 (Revised) the FRC would likely revise the requirement such that the auditor's report would state:

"We are independent of the Group within the meaning of the Financial Reporting Council's Ethical Standards for Auditors and have fulfilled our other responsibilities under those Ethical Standards and the ethical pronouncements established by the [specify applicable UK accounting body]".

As can be seen from the above, the FRC contemplates that the disclosure would make reference to national requirements but would not need to make reference to the IESBA Code per se.

Disclosure of the Name of the Engagement Partner

12. What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

In the UK and Ireland, and in Europe more generally, disclosure of the name of the engagement partner in the auditor's report has been required for some years. In the UK, the engagement partner is described in law as the "senior statutory auditor". Other than as discussed below, we are not aware of the disclosure of the name giving rise to any practical difficulties.

The FRC strongly supports the need for a "harm's way exemption" because there have been examples in the UK of very real threats being made to engagement partners (and also to their staff and their families) auditing certain companies whose business gives offence to certain extreme organizations. In these circumstances neither the name of the engagement partner nor of the audit firm is required to be on the public record. However, the FRC recommends that paragraph 42 be strengthened so as to avoid potential abuse of this derogation. In particular, the FRC is of the view that the entity, as well as the auditor, should consider that public disclosure of the name would create a serious risk and that the entity should be required to notify the relevant national authority of its decision in this regard.

Other improvements to Proposed ISA 700 (Revised)

13. What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

Improved description of the responsibilities of the auditor and key features of the audit

We do not have any objections per se to the proposed wording of the description of the responsibilities of the auditor and key features of the audit set out in paragraphs 35 to 38 of proposed ISA 700 (Revised). However, the FRC's view is that the description is far too lengthy to be repeated in all auditor's reports. Our own outreach activities have shown that, almost without exception, audit report users want less

rather than more standardized language in auditor's reports. The FRC, therefore, does not support the underlying premise of the requirements set out in paragraphs 35 to 38 of proposed ISA 700 (Revised) that this information should be included in audit reports. For wording that is expected to be included in audit reports routinely, we believe that a much shorter formulation is appropriate. UK and Ireland auditor's reports are presently required to include the following text in those cases where the description on the FRC's website is not referred to. It should be noted that this description also addresses the auditor's responsibilities under ISA 720 (UK and Ireland):

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the *[describe the annual report]* to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Provision for the descriptions of the responsibilities of the auditor and key features of the audit to be relocated to an appendix in the auditor's report, or for such a reference to be made to such a description on the website of an appropriate authority

The FRC strongly supports the provision for the description of the responsibilities of the auditor and key features of the audit to either be relocated to an appendix in the auditor's report or for a reference to be made to such a description on the website of an appropriate authority. The FRC has for a number of years permitted these options in UK Auditing Standards. In the UK there has been quite a strong take up of the web-site option in particular.

As discussed in paragraphs 12 and 13 of our covering letter the FRC is of the view that mandating certain wording to be included in the body of the auditor's report whilst permitting the remainder of the description to be described on a web-site somewhat defeats the objective of removing standardized wording from the auditor's report. The FRC recommends that all of the responsibilities of the auditor should be permitted to be described in the description of the scope of the audit which may be cross referred to from the auditor's report.

Reference to who in the entity is responsible for overseeing the Company's financial reporting process

The FRC supports the requirements set out in paragraphs 32 to 34 of proposed ISA 700 revised. The flexibility that is envisaged in the proposal is particularly appropriate to the UK legal regime which holds the directors to be responsible for the preparation of financial statements and does not separately recognize or attribute any responsibilities to management.

Other reporting responsibilities

The FRC supports the proposals with respect to other reporting responsibilities. In particular the FRC believes it is appropriate to give national standard setters flexibility

to determine how best to place the auditor's communication about such matters in the auditor's report in order to be meaningful to users. These proposals will be particularly useful to the FRC in determining how to include auditor's reporting responsibilities under the UK Listing Rules relating to corporate governance within the auditor's report.

14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraph 20-45 and the circumstances addressed in paragraphs 46-48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

The FRC agrees with the IAASB's proposal not to mandate the ordering of sections of the auditor's report in any way. As a communication, we believe it is important for the auditor to have the room for judgment to order this in a manner that makes it as meaningful as possible to users. What is most meaningful in one jurisdiction or cultural background may not be in another. National Standard Setters should also play a role in guiding auditors as to what may be most meaningful in their jurisdiction given, for example, other national reporting requirements.

However, the FRC's view is that ISA 700 should explicitly indicate that the ordering of the paragraphs in the illustrative auditor's report is the preferred ordering absent national laws or regulations that prescribe a different order. Such an indication could quite simply be provided in the rubric to the illustrative examples.

As discussed in paragraph 2 of our covering letter, the FRC strongly supports the inclusion of paragraphs 46 to 48 in the proposed revised ISA 700. If these paragraphs were not included in the proposed revised ISA 700 this would influence the extent to which the FRC could be supportive of the other proposals.

The FRC is supportive of the requirements in paragraphs 20 to 45 except as discussed in paragraphs 12 and 13 of our covering letter.

