

# Standard Life Investments

The International Auditing & Assurance Standards Board ('IAASB')  
6th Floor  
529 Fifth Avenue  
New York  
New York 10017

By email to the IAASB website

21 November 2013

Dear Sirs,

## **Exposure Draft: Reporting on Audited Financial Statements: Proposed New and Revised ISAs**

Standard Life Investments is a leading global Institutional Investor with assets under management of US\$ 290.8 billion as at 30 September 2013. In fulfilling our responsibilities on behalf of our clients, we place due reliance on audited financial statements and hence we are keen to ensure that high quality audits are undertaken in accordance with ISAs. Accordingly, we welcome the invitation to comment on the proposals set out in the Exposure Draft.

We have participated in relevant discussion fora with the IAASB Chairman and executives in recent months, and have reviewed the 'at a glance' summary dated July 2013. We support strongly the provision of more informative auditor reports, and hence we welcome the IAASB's direction of travel in this regard. In relation to the specific matters on which feedback is sought, our views are set out below.

The appropriateness of the requirements and guidance proposed in ISA 701 addressing the auditor's determination and communication of key audit matters, and the illustrative examples.

We believe the requirements and guidance proposed in ISA 701, as reflected in the illustrative examples, are appropriate. However, we believe it would be useful for investors to have the auditor report on its assessment of materiality. As you will be aware, such an assessment is now being provided by auditors in the UK, and we find the information to be very useful in assessing the reliability we can place on the financial statements concerned. We believe its usefulness will be further enhanced when comparative information over time is available, not least because this will provide insight to an important component of audit quality.

The appropriateness of the requirements in the proposed ISA 570 (Revised) addressing auditor reporting on-going concern and the related wording in the illustrative auditor's reports. The IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users in light of the auditor's work effort under the ISAs.

We believe the reporting, as reflected in the illustrative examples, is appropriate and should not give rise to misunderstanding or misinterpretation by users. In this latter respect, we would draw attention to the following words in the illustrative example: *‘However, neither management nor the auditor can guarantee the Group’s ability to continue as a going concern.’*, which to our mind is unambiguous and leaves the reader in no doubt that no assurance is being given regarding the entity’s viability as a going concern.

The overall form and content of the proposed auditor’s report, and the implications of other proposals within the ED.

The only area of concern that we have relates to the requirements to communicate with those charged with governance about various matters, including significant audit findings and any significant deficiencies in internal controls that the auditor identifies, and the provision of a statement that the auditor has complied with relevant ethical requirements. Our concern, based on the illustrative auditor report, is that it merely sets out what the auditor is required to do but does not state that the auditor has made the requisite communications with those charged with governance. Therefore, we should like to see the statements by the auditor being affirmative in these regards. Although, not necessarily within the scope of the invitation to comment, we believe it would be appropriate for audit committees (or such other bodies as is charged with governance in these respects) to acknowledge that they have received and acted upon such communications and statements from the auditor.

The anticipated benefits and costs arising as a result of the proposals, changes that will be needed to implement them, and any significant foreseeable difficulties.

The anticipated benefits that we perceive from the proposals include:

- The provision of additional information that will assist investors in holding the boards of companies to account.
- Informational ‘hooks’ that will facilitate improved dialogue and engagement between boards and investors in respect of financial reporting and the financial aspects of corporate governance.
- Investors and other stakeholders being in a better informed position to assess the quality of the audit.
- Assisting investors in focusing on some of the key issues included in financial statements.

To assist in enabling the full potential of these benefits being realised, we should like the IAASB to encourage companies to incorporate relevant parts of the auditor commentary into (a) results announcements by companies, and (b) analysts briefing packs (used as part of the investor road shows), so that they become an integral part of mainstream investor relations.

We do not believe the incremental costs arising as a result of the proposals should be significant. We believe that the proposals reflect a recording of views and work that are already reached and undertaken respectively by the auditor as part of good quality audits. Accordingly, the marginal resource required to comply with the proposed ISAs should not be onerous. We encourage the IAASB, assuming it concurs, to communicate this point when publishing the proposed ISAs.

We do not see significant changes that will be needed to implement the proposals. Nor do we foresee any significant difficulties in doing so.

Conclusion

We are pleased that the IAASB is taking active steps to enhance the communicative value of the auditor's report, and improve communications between the auditor and those charged with governance. We believe that the proposals will not only improve corporate governance but also strengthen accountability.

We trust our views will assist the IAASB in its deliberations.

Yours faithfully

A handwritten signature in cursive script that reads "Guy R. Jubb". The signature is written in black ink and is positioned above the printed name and title.

Guy R Jubb  
*Head of Governance & Stewardship*  
*Standard Life Investments*