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International Auditing and Assurance Standards Board  
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9 December 2013

Dear Arnold

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

I am writing to you on behalf of the FRC to seek to allay concerns, which have been expressed by the ICAEW in its response to the above proposals, as to FRC's commitment to the IAASB's work and standards.

The FRC has consistently shown a strong commitment to both the IAASB and the ISAs. The APB (the former operating board of the FRC with responsibility for setting the auditing standards until 2012) voluntarily adopted the ISAs in 2004 and in 2009 adopted the clarified ISAs; at the same time it significantly reduced the national differences (so-called 'ISA pluses'). In 2009, because of national developments in auditor reporting, we did not adopt ISA 700 as issued by the IAASB but enabled auditors following ISA (UK and Ireland) 700, our equivalent standard, concurrently to assert compliance with the ISAs issued by the IAASB by ensuring that our standard complies with the minimum criteria in paragraph 43 of ISA 700.

#### *UK context*

As UK regulator, the FRC has a clear responsibility to pursue necessary improvements to its standards in the public interest where its standards apply and at a pace that is responsive to UK market needs.

As you and the IAASB are aware, the FRC is in the somewhat unique position of both setting standards for auditors and establishing the UK Corporate Governance Code. As a consequence in connection with auditor reporting this has enabled the needs of investors to be addressed by means of the published audit committee report rather than by the auditor through the auditor's report. This enabled us to address a key concern expressed by many stakeholders that auditors should not ordinarily be the original source of information given to the markets about the companies they audit – that is the primary responsibility of the directors of those companies.

However, the auditor's role was strengthened in parallel, to enhance their responsibility for communicating to the audit committee what could be called 'key audit matters'; and for speaking up in their own report if the audit committee report does not appropriately deal with matters they raised with the committee. In the auditor's report, they also have to give some

insight into how they undertook their audit (their approach to materiality, the audit risks they identified and how these translated into the scope of their audit) – matters that clearly fall within the responsibility of the auditor – to begin to provide an agenda for engagement by investors and other users about the audit. With respect to the approach to materiality, we are aware of the misgivings of some as expressed by the ICAEW. Our own consultation highlighted that such misgivings are not widely held. Users of financial statements and others who responded to our consultations confirmed this combination of measures was an appropriate approach to providing them with further information and was likely to be of considerable value to them.

### *International context*

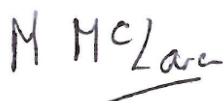
When we aim to raise the quality of reports by auditors, it is to engender confidence in the external audit function, for any investor, whether from the UK or elsewhere, who wants to invest in the UK's capital markets and indeed any UK investor who wants to invest elsewhere in the world. We are therefore committed to having a strong voice in international debates on auditing, but also to listening to others' views, playing an active part in discussions with our counterparts in Europe and internationally and collaborating in the development of European and international standards and solutions.

Our commitment to the development of fit for purpose UK standards, in our minds necessarily involves a commitment to developing international standards and solutions. Indeed, we believe that it can be greatly beneficial to the development of international standards that national standard setters, such as the FRC, the PCAOB and others play a leadership, or pathfinder, role in the development of standards. We do not see our work as competing with that of others but rather of complementing it.

As you know, Jon Grant and Marek Grabowski have participated wholeheartedly in the IAASB's various Task Forces working towards international consensus in the same spirit that other IAASB Members and Technical Advisers participate. The FRC will continue to do so following Jon's retirement and Marek's appointment to the IAASB.

I therefore hope that you will accept my assurances in the spirit in which they are given. To underline that commitment we will be publishing this letter on our website and would welcome it being published with our response to the IAASB's Auditor Reporting Exposure Draft.

Yours sincerely



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Codes and Standards

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