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Dear Mr Billing,

FRC Staff Paper – Analysis of the main potential changes in auditing standards arising from the Exposure Draft of ISA 720 (revised)

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the expert group is at Appendix A.

Response

We welcome the opportunity to provide comments to the Financial Reporting Council (FRC) on the revision of ISA 720. As a general point, we note that the impact of the revised standard on our members should not be great given that most of the changes were already anticipated by the FRC last year when it revised ISA 720 (UK and Ireland). We have responded to the questions in the staff paper below:

Scope of the proposed ISA

Question 1

We agree that it is appropriate to strengthen auditor's responsibilities with respect to other information, though note that in the UK this has already been anticipated in the changes made to ISA (UK and Ireland) 720.

Question 2

As a general principle we believe that such an extension is appropriate; however we would urge the IAASB to provide greater guidance as to how such documents are to be identified.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

In an era where documents are often published electronically how are documents that “accompany” the financial statements to be identified? Would the definition include, for example, any document published within an ‘Investor Relations’ section of the website on the same day as the financial statements, or would it only be restricted to documents explicitly linked to and cross referenced from the financial statements? Would analysts’ presentations that on websites are often situated alongside the financial statements be included within the scope event if they were not published on the same day?

Question 3

We do not believe that the concept of initial release is clear. In particular we believe that it would cause confusion in the minds of users with the date the financial statements were approved and authorised for issue. We are concerned that confusion will arise over the impact of events arising between the two dates – whether users will believe that auditors have conducted procedures to identify such events and whether and how such events should be reported in the other information.

The definition of the initial release date is when the financial statements are “...first made generally available to a group of users...”. This definition is too vague and should be made more specific if the concept is to be retained. For example, if a set of financial statements were sent to regulators in a non-publicly available filing (such as the FSA in the UK or the tax authorities) and only sent to shareholders 10 days later when would the date of initial release be? The definition should refer to when the financial statements are sent to shareholders or made publically available, if earlier.

Question 4

In a UK context where there is already regulation over securities offering documents and we do not believe that including such a document within the scope of ISA 720 would be appropriate. The costs would outweigh the benefits, which in a UK context would be negligible. We would recommend that the IAASB retain some flexibility to allow for securities offering documents to be scoped out in such circumstances.

Objectives

Question 5

We consider that the objectives are appropriate and clear.

Definition of an inconsistency in the other information and Reporting

Question 6

We consider the definitions appropriate.

Question 7, 11 and 12

Whilst we believe that the wording is clear, we are concerned that there is some evidence to suggest that such caveats widen the expectation gap that already exists over the role of an audit (see in particular the study “Financial Statement Users’ Perceptions of the IAASB’s ISA 700 Unqualified Auditor’s Report in Germany and the Netherlands”).

Additionally we are concerned that a conclusion that states “no audit opinion or review conclusion” could be seen as being confusing and contradictory when included within the confines of an audit report.

We would therefore urge further evidence to be obtained on this important question.

Nature and extent of work effort

Question 8

We agree with the approach taken in the proposed ISA. Consistent with our view on accounting standards, we believe that a principles-based approach is the most appropriate one and will allow auditors to exercise their judgement and to adopt their approach to the circumstances of the entity they are auditing. We do not believe that the work effort extends the scope of the audit. However, we would encourage the IAASB to continue to be explicit about this point to avoid the danger of ISA 720 being misinterpreted.

Question 9

The examples included in the appendix are helpful examples of qualitative and quantitative information.

Responding when the auditor identified that the audited financial statements may be materially misstated

Question 10

We believe that the response of the auditor is clear except in the case of a material post balance sheet event which arises after the date of the audit report and before the date of initial release. We do not believe that it is clear whether auditors have a duty to undertake procedures to identify such matters in this period, nor is it clear what their response should be, if any.

If you would like to discuss any of this further, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tim Ward', with a stylized flourish at the end.

Tim Ward
Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Anthony Carey (Chairman)	Mazars LLP
Matthew Stallabrass (Deputy Chairman)	Crowe Clark Whitehill LLP
Anthony Appleton	PKF (UK) LLP
Peter Chidgey	BDO LLP
Jack Easton	UHY Hacker Young
Ian Smith/Bill Farren	Deloitte LLP
Jonathan Ford	PricewaterhouseCoopers LLP
David Gray	DHG Management
Usman Hamid	Ernst & Young LLP
Matthew Howells	Smith & Williamson Limited
Nick Winters/James Lole	RSM Tenon Group PLC
Niraj Patel	Saffery Champness
Nigel Smethers	One Media Publishing
Chris Smith	Grant Thornton UK LLP
Paul Watts/Jonathan Lowe	Baker Tilly