

Roger Harrington

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3 December 2013

Public Company Accounting Oversight Board,
1666 K Street, N.W.,
Washington, D.C. 20006-2803
United States

By email: comments@pcaobus.org

Dear Sir or Madam,

Invitation to Comment – PCAOB Rulemaking Docket Matter No. 034

We welcome the opportunity to comment on the PCAOB's proposed new auditing standard "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion".

BP responded to the International Auditing and Assurance Standards Board's (IAASB) 2012 consultation "Improving the Auditor's Report". We believe that the points we made in response to that consultation are relevant to the PCAOB's proposals, and we include a copy of our response to the IAASB.

We recognize that investors are seeking further means to engage with management and auditors on the financial statements, but do not believe that "critical audit matters" are the best way of achieving that aim. Auditor reporting of critical audit matters would most likely either duplicate information presented as critical accounting policies or judgements, or would result in the auditor being the original provider of information about the company, which would violate the principles for auditor reporting that we set out in our response to the IAASB's consultation. We believe that the proposals effective in the United Kingdom this year – requiring the auditor to describe the main risks they identified and how they scoped their audit – strike a better balance.

If you would like to discuss any of the comments in this letter, we would be happy to do so. Please do not hesitate to contact me or Martin Perrie (martin.perrie@uk.bp.com).

Yours faithfully

A handwritten signature in blue ink, appearing to read 'R Harrington', followed by a second, more stylized signature in blue ink.

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7 September 2012

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
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Dear Sir or Madam,

Invitation to Comment – Improving the Auditor's Report

We welcome the opportunity to comment on the IAASB's Invitation to Comment – Improving the Auditor's Report (the "ITC"). I am pleased to respond on behalf of BP p.l.c. to the invitation to comment

We support the objective of making the auditor's report more readable and more relevant to users of financial statements. We also agree that the scope of the audit and the role of the auditor is not particularly well understood and that efforts to educate those whose background is not auditing would be helpful.

However, we do not agree with the proposals in the ITC regarding Auditor Commentary. We question the assertion that this is something which a significant proportion of users of financial statements are requesting, and encourage the IAASB to conduct robust research into the demand for such a change.

Increasing complexity of financial statements

We recognize that large multinational companies' financial statements are becoming increasingly lengthy and complex, but we do not believe that a "roadmap" provided by the auditor is an appropriate means of addressing this development. There are a number of initiatives currently under way to improve the readability and understandability of financial statements and annual reports more broadly, such as the IASB's proposed forum on improving disclosures and prioritization of their Conceptual Framework, and in Europe EFRAG and the UK FRC's discussion paper on a disclosure framework and ESMA's consultation paper on materiality in financial statements. We welcome these efforts to streamline financial reporting so that significant matters, and only significant matters, are reported.

The IAASB has an important role to play in promoting the cultural change that will be necessary to achieve these improvements, but we are not convinced that the proposed changes to auditor reporting are either necessary or sufficient to meet these aims. A better outcome may be achieved by the IAASB working together with the IASB and securities regulators to promote better, clearer, more focussed reporting by issuers.



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Principles for auditor reporting

There are two important principles that we believe should be applied to auditor reporting:

- The auditor should not be the "original provider" of information about the entity - that is management's role; and
- The auditor should not duplicate information already provided by management.

Clearly if both these principles are applied there is only a limited amount of information that the auditor will provide. This could include information related to the audit of the entity in question, such as how the audit was scoped, how materiality is applied, and a summary of work done on significant areas, although as stated above we do question whether there is a demand for this information from investors.

We do not agree with the proposals set out in the ITC. We believe that it is management's responsibility to set out the key judgements made in the preparation of the financial statements, and under the IAASB's proposals the auditor would end up duplicating information that management has already provided. If the objective is to ensure that the significant judgements are better disclosed, then there could perhaps be a requirement to include a specific statement in the audit report that the auditors have read the significant judgements disclosed and agree that it is complete and consistent with the audit work performed.

In addition, we are not convinced that the auditor is best placed to comment on what is most important to users of the financial statements – there are many different types of user, each with different interests and needs. Furthermore, in jurisdictions such as the United Kingdom the audit report is addressed to existing shareholders, and the audit report is consequently not addressed to other users of the financial statements.

We do agree that users would find it useful to understand the nature of the discussions between management, the audit committee and the auditor. We believe that the appropriate forum for this disclosure is in the report of the audit committee, not the audit report, and this will indeed be a requirement in the UK in the near future.

Unintended consequences

The proposals in the ITC could significantly alter the dynamics between management, those charged with governance and the auditor. At best we could foresee a significant drain on resources as the drafting of the auditor commentary is discussed between senior management, the audit committee and senior members of the audit team; at worst the discussions between management, the audit committee and the auditor may become constrained for fear of all significant discussions being required to be published in the audit report.

A longer list of significant matters set out in the auditor commentary would, we believe, detract from fundamentally important matters which currently require disclosure in the auditor's report.

We believe that the IAASB should perform a robust impact analysis to identify any other unintended consequences, either direct or indirect, that might result from its proposals before progressing with this project.

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If you would like to discuss any of the comments in this letter, we would be happy to do so. Please do not hesitate to contact myself or Martin Perrie (martin.perrie@uk.bp.com).

Yours faithfully

A handwritten signature in blue ink, consisting of a large, stylized initial 'R' followed by a series of loops and a long horizontal stroke.

Roger Harrington