Mr James Gunn  
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Dear James

Invitation To Comment: Improving The Auditor’s Report

Thank you for the opportunity to comment on the IAASB’s auditor reporting proposals.

Our responses to the specific questions raised by the IAASB in their Invitation to Comment are included in the Appendix. Our main comments are summarised below:

- Importance of pass/fail audit opinion - In our opinion, the current objective pass/fail audit report model is not broken and there is a risk that the IAASB proposals in this area will undermine the strength and clarity of the auditor’s opinion. Whilst we acknowledge there is a need for greater transparency in the reporting of key financial reporting risks and how these are being addressed we do not agree that it is the responsibility of the auditors to provide such information. Instead, we encourage the IAASB to put more pressure on companies to meet their existing financial reporting responsibilities with regard to disclosure of key financial reporting risks and judgements.

- Disclosure responsibility - We firmly believe that auditors should not be the original source of disclosure information about the entity. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework is that of the management of the entity, with oversight from those charged with governance (“TCWG”). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- Auditor commentary - If some form of auditor commentary is required then we believe that this should be restricted to audit matters and not financial reporting disclosures which are the responsibility of the management and those charged with governance. Where audit matters are referred to then we believe that this
should be limited to a description of the audit work performed on key aspects of the audit and should not provide information that would undermine the overall pass/fail opinion on the financial statements. If the auditor is required to comment on financial reporting disclosures then we advise the IAASB to restrict this to a cross-reference to the particular financial reporting disclosures that the auditors consider should be brought to the attention of the reader of the financial statements and not a commentary on the quality or otherwise of those disclosures.

- **Definition of PIEs** - It is important that the IAASB develops an internationally accepted definition of public interest entities ("PIEs") and that this is used to determine which companies are required to have an auditor commentary and which companies are not. The demand for change appears to be coming from institutional investors in the larger listed companies and we question whether there is such a demand for change at the smaller end of the listed market and for unlisted companies where the costs involved would be disproportionately high. Rather than leaving the inclusion of auditor commentary up to the discretion of auditors we would like the IAASB to make it clear that auditor commentary is not mandatory for non-PIEs and is not considered to be optional and at the discretion of the auditor.

- **Flexibility** – although we are fully supportive of the IAASB’s aim of a globally consistent auditor’s report and applaud the leadership role they are taking in this matter we recommend that in mandating structure and order the IAASB allow sufficient flexibility for the requirements of national law and regulations to be incorporated.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

Hugh Morgan  
Technical Director  
Baker Tilly UK Audit LLP
Appendix

Response to specific questions asked by the IAASB

Overall Considerations

1. Overall, do you believe the IAASB’s suggested improvements sufficiently enhance the relevance and informational value of the auditor’s report, in view of possible impediments (including costs)? Why or why not?

NO

Although we are supportive of the leadership role that the IAASB is taking on audit reports we do not believe that the suggested improvements in the Invitation To Comment (“ITC”) will enhance the relevance and informational value of the auditor’s report.

In our opinion, the pass/fail audit report model is not broken and there is a risk that the IAASB proposals in this area will undermine the strength and clarity of the auditor’s opinion. There is a strong argument that the audit report should be made shorter, not longer, and should focus more clearly on the importance of the clear pass/fail binary nature of the true and fair opinion which many users believe is the main strength of the audit report. Support for this is seen in the consultations aimed at cutting the “clutter” in financial reports and the IAASB’s ITC paper seems to go against that thinking potentially adding to the “clutter” rather than reducing it.

We question whether there really is the demand for the improvements proposed in the IAASB paper. The push for change has not come from auditors, management or those charged with governance who already have this information but from institutional investors in the larger PIEs who, despite having the opportunity to meet with management and those charged with governance and receive investor briefings, want even more detailed information about the company in order that they can make better investment decisions. It is hard to see that the auditor commentary section in the auditor’s report would do sufficient justice to the more complex issues identified on an audit and may just leave lots of questions unanswered potentially undermining the view given by the financial statements.

Our overriding concern is about auditors providing original information in the auditor’s report, particularly when it is about financial reporting matters. In our opinion, if auditors are required to include an audit commentary section within the audit report then it should be restricted to reporting on audit matters for example materiality or the approach to the group audit and not financial statement disclosure matters which are the responsibility of the directors. We believe that the financial statements disclosures should be capable of standing alone and should not need to be augmented by further disclosures in the audit report unless a qualification is needed or there is a material uncertainty that the auditor needs to draw to the attention of the reader of the financial statements. If auditor commentary is required on financial reporting disclosures then our preference
would be that this is restricted to a cross-reference to particular financial reporting disclosures that the auditors consider should be brought to the attention of the reader of the financial statements. This would maintain the responsibility of the directors for the preparation of the financial statements and would help “shine a light” on important financial reporting disclosures or judgements that the auditors considered should be brought to the attention of the reader.

We believe that cost is a real impediment to these proposals particularly when the benefits are unproven and likely to be negligible. First year costs, in particular, will be huge but may reduce as on-going issues are reported in subsequent years. Auditor commentary sections will be viewed as qualifications and will take a lot of expensive partner and manager time to resolve and agree with clients. It is unlikely that clients will want to pay for additional time spent agreeing auditor commentary sections in audit reports making it likely that audit firms will have to absorb the increased costs.

What is clear is that the cost impact is going to be disproportionately high at the smaller end of the market. We surveyed our clients to find out their views on the IAASB proposals and 78% of the clients that responded thought that the costs of audits would increase as a result of the proposed improvements to auditor reporting. One client commented that “The present audit report has clearly defined borders. Moving into subjective reporting through commentary will add to the cost through increased risk management” and another added “Anything that can add value to the [audit] service would be appreciated but it needs to be done within existing cost levels.”

2. Are there other alternatives to improve the auditor’s report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

YES

As far as we know there are at least three other alternatives to the IAASB proposals:

- Europe - Article 22 of the European Commission’s proposed regulation on auditors in the European Union is currently being considered by the European Parliament and the Council of Ministers;

- UK – the Financial Reporting Council is promoting its own ‘governance model’ approach in this area following its “Effective Company Stewardship” consultation; and

- US – the PCAOB’s are consulting on auditor reporting.

We support the leadership role that the IAASB is taking in the debate about auditor’s reports and would greatly value the international consistency that an IAASB solution would provide. We recommend that the IAASB continues to work with the EU, regulators and other national standard setters to ensure that an internationally consistent solution is reached.
Auditor commentary

3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor’s report? Why or why not? (See paragraphs 35–64.)

NO

As stated in our response to the IAASB’s consultation “Enhancing the Value of Auditor Reporting: Exploring Options for Change” we do not believe that auditors should be the original source of financial statement disclosure information about the company. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework is that of the management of the entity, with oversight from those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The danger of audit commentary on financial reporting matters like impairments is that it can never convey the full extent of the auditor’s work in such complex areas and will be interpreted as a qualification if doubts are raised or assumptions questioned or more radical sensitivity analysis suggested. Whilst we acknowledge there is a need for greater transparency in the reporting of key financial reporting risks and how these are being addressed we do not agree that it is the responsibility of the auditors to provide such original information and instead we would encourage the IAASB to put more pressure on companies to meet their existing financial reporting responsibilities with regard to this disclosure. If auditor commentary is required then as stated above our preference would be that this is restricted to a cross-reference to particular financial reporting disclosures that the auditors consider should be brought to the attention of the reader of the financial statements.

We can understand the attraction from some users for additional information, such as that provided by the auditor to the audit committee under the communication requirements of ISA 260, to be delivered directly from the auditor to the users of the financial statements. However, we believe that there is a fundamental difference between the information that an auditor provides to an audit committee or those charged with governance and the sort of information that an auditor can include in an auditor’s report. A fundamental concept of ISA 260 is “two way” communication between the auditor and those charged with governance. It is important to understand that the information that the auditor provides to those charged with governance is formulated with the expectation that there is a two way, often face to face, discussion between the auditor and the audit committee with each party able to ask questions and add additional information and explanations. There is an assumption that those charged with governance are “informed management” and will have a level of knowledge
about the issues being discussed as a result of their financial reporting oversight responsibilities which will help put the auditor’s communication into context. In our view, if the same information is shared with relatively uninformed users of the financial statements it would potentially create confusion and undermine the credibility of the financial statements because users will not have been party to the earlier two-way communication that will have taken place between the auditor and those charged with governance.

Although, for all the reasons stated above, we are against original reporting by auditors on financial statement disclosure matters we accept that there may be instances where investors might find more information about the auditor’s approach useful. If auditors have to include audit commentary then in our opinion it should be restricted to reporting on audit matters for example the materiality level adopted or the approach to the group audit. We strongly believe that the financial statements disclosures should be capable of standing alone and should not need to be augmented by further disclosures in the audit report. This is an area where investors want more information from auditors but there is a danger that any auditor commentary with undermine the clarity of the pass/fail true and fair view. Any original disclosure information included by auditors will be challenged by clients and their lawyers and it is inevitable that overtime boilerplate will evolve.

4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor’s judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor’s decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50.)

YES

We agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor. In our opinion, the content of the auditor commentary should not be mandated otherwise it will quickly evolve into boilerplate and as a result add very little value.

Guidance in the standards would help to inform the auditor’s judgement and maintain some level of consistency over what is included in the auditor commentary. The IAASB might consider linking the audit matters reported in the audit commentary section to the “significant risks” identified by the auditor under ISA 315 and communicated to TCWG under ISA 260. Guidance will need to be both proportionate and scalable. It would not always be practicable or necessary for the auditor to include in the audit report commentary on all of the significant risks identified during the audit and the auditor should be allowed to use their professional judgement as to what is reported. Significant risks are often complex and to properly understand them and their possible implications would potentially require much more detail than is envisaged in the IAASB model and further guidance would be needed to ensure consistency in reporting in this area.
5. Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)

NO

As stated above we believe that institutional investors are the main source of the demand for audit reporting change. From what we understand to be the views of investors the information given in the IAASB examples is not detailed enough to give investors the informational or decision making ability that they seek. These investors want to see detailed information about what the auditor really thinks about financial statements and which are the areas which they have had problems with. Investors would like to see more detail on judgemental areas like accounting estimates and impairments so that they can understand the sensitivities and areas where management have used judgement to come up with an answer and the auditors have reached a different judgement or believe that management’s judgement is at the edge of the acceptable range. Investors want to be able to compare companies and for any uncertainties to be quantified. The IAASB examples are very brief and contain little substance. We believe that this lack of detail in the IAASB examples will potentially just raise further questions rather than providing the sort of detailed information required for decision making that investors want.

As stated above we do not believe that auditors should be the original source of financial reporting disclosure information about the company. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework is that of the management of the entity, with oversight from those charged with governance. If investors want further information about judgements and estimates then in our opinion this should be provided by the management and TCWG through the financial statement disclosure route and should not rely on auditors filing in the deficiencies through inclusion in the auditor commentary section of their audit report.

If auditors have to include an audit commentary section within their report then we believe that it should be restricted to reporting on auditing matters for example the materiality level adopted or the approach to the group audit and not financial reporting disclosures. We further recommend that the auditor commentary is restricted to audit procedures rather than the results of those procedures. The results of those procedures are embodied in the pass/fail audit opinion and piecemeal reporting of results will only undermine the overall audit opinion, give an impression of specific assurance on elements of the financial statements rather than the financial statements as a whole and potentially damage confidence in the audit. Even where the auditor considers that an understanding of the approach to the group audit might be useful information to investors it
must not undermine the audit opinion on the group accounts or the concept of sole responsibility for the opinion on the group accounts.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor’s report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)

The main implications for the financial reporting process of including an auditor commentary section in the auditor’s report is the increased time and cost that it will take to agree the wording. In the survey we conducted of our audit clients and contacts 78% of those that responded agreed that the cost of audits would increase as a result of these proposed improvements to auditor reporting.

The auditor commentary section will require additional time from the senior members of the audit team to draft the additional information, to discuss the matters internally within the firm, get technical department approval and if necessary discuss the matter with lawyers. Where an engagement quality control review is involved in the engagement the content of the auditor commentary section will need to be agreed as part of the engagement quality control review.

The potential sensitivity of the matters raised in the auditor commentary section will mean that the auditor will want to discuss the content with management and TCWG and because of time pressure will want to involve them earlier in the financial reporting process so that their input does not delay the completion of the audit. Management and TCWG might also want to consult further and if necessary involve their lawyers to consider the wording of the auditor commentary where they have concerns about what has been written by the auditor. All of this will take time, soak up management resource and in the case of lawyers be a real external cost to the company.

We also believe that the increased level of review that will be required by both audit firms and their clients will mean that the audit completion phase of the audit will take longer and this could potentially cause delays in publishing audited financial statements.

7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

NO

There is currently no internationally accepted definition of a PIE and until one is developed any IAASB auditor commentary requirement based around PIEs will be interpreted differently both between and within different countries and this will lead to a lack of international consistency and widespread confusion. We recommend that the IAASB consider developing internationally consistent criteria for the definition of a PIE, possibly basing this on the criteria that are
currently used to determine whether a company is required to prepare their financial statements under IFRS. Our main concern is that auditor commentary is adopted on a consistent international basis and that jurisdictions do not gain advantage through interpretation of the PIE definition.

If acceptable criteria for PIEs are developed then we accept that there is demand from investors for the inclusion of an auditor commentary section in auditor’s reports. We do not accept that the same is true of non-PIEs where there is no evidence to suggest that the users of the accounts of non-PIEs are pushing for the additional information that might be included in an auditor commentary section. In our opinion leaving the inclusion of an auditor commentary section to the discretion of auditors is unworkable and will create massive inconsistency. Allowing auditors to use their discretion over whether or not to include an auditor commentary section for non-PIEs could create not only create international inconsistencies but there would be inconsistencies between different firms in the same country and between different partners within the same firm. It would be far better if the IAASB made it clear that the requirement for an auditor commentary section applied only to PIEs and was not required for non-PIEs.

If the inclusion of an auditor commentary section is left to the discretion of the auditor then 38% of the clients that responded to our survey said that they felt that the auditor would feel obliged to add commentary to all but the most straightforward audits. The inclusion of an auditor commentary section where it is not a specific requirement might be viewed as a qualification which will make it very difficult to agree with clients. There is a danger that audit firms might be selected on whether or not they have a practice of including auditor commentary sections and 33% of the clients that responded to our survey said that their choice of auditor would be influenced by the level of detail included in the auditor commentary section of the audit report.

It is also important for the IAASB to consider the disproportionate cost implications of the inclusion of an auditor commentary section in PIE and non-PIE audits. The cost impact of an auditor commentary section on a large listed company would be relatively insignificant whereas on a smaller listed company or non-listed company the additional costs involved could be very significant particularly when there is no real demand for the information.

**Going concern/Other information**

8. **What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management’s use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)**

We accept that auditor’s statements related to going concern are deemed to be important to users of financial statements. In our survey of clients 68% of those clients that responded said that auditors of all companies, not just PIEs, should be
required to conclude specifically as to whether the management’s use of the
going concern assumption was appropriate.

In our view the proposed going concern section adds little additional information
turning what was an implicit statement in ISA 570 to an explicit statement in the
auditor’s report. We question whether these going concern statements add any
real value particularly where the financial statements are prepared on a going
concern basis and there are no material uncertainties. In cases where there are
material uncertainties and an emphasis of matter is required the inclusion of these
statements in what is a much longer auditor’s report could potentially undermine
the importance of the emphasis of matter and the IAASB should consider how
they can give greater prominence to a going concern emphasis of matter to make
it clear to a reader that there are material uncertainties in relation to going
concern. We would also recommend that the management responsibilities section
relating to going concern was moved to before the auditor’s statement on going
concern so that the auditor’s statement is put in its proper context.

We also draw the IAASB’s attention to the need for some flexibility in the period
assessed for going concern purposes because in the UK we are required to
consider a period of at least twelve months from the date of signing the financial
statements not from the end of the reporting period.

9. What are your views on the value and impediments of including additional
information in the auditor’s report about the auditor’s judgments and
processes to support the auditor’s statement that no material uncertainties
have been identified? (See paragraphs 30–31.)

Whilst we accept that auditor’s statements related to going concern are deemed to
be important to shareholders and users of financial statements we disagree that
including additional information in the auditor’s report about the auditor’s
judgements and processes to support the auditor’s statement that no material
uncertainties have been identified is necessary. In our view, the directors are
responsible for making an assessment of the company’s ability to continue as a
going concern when they are preparing the financial statements and for making
necessary disclosures about going concern in the financial statements.

As stated above, we do not agree with auditors making original reporting about
financial reporting matters and unless there is a going concern qualification or
material uncertainties that require an emphasis of matter we would not agree with
additional disclosures being provided by the auditors. Additional comments by
the auditors about their judgements even where there are no material uncertainties
might be seen by some as a qualification and could result in further time delays
and additional costs involved in agreeing wording.

10. What are your views on the value and impediments of the suggested auditor
statement in relation to other information? (See paragraphs 65–71.)

The inclusion of the suggested auditor statement in relation to other information
is not considered an issue in UK where equivalent wording has already been
included in an auditor’s report for a number of years. We are unclear whether this
adds any value to the auditor’s report as very rarely do you see a qualification about inconsistency between other information and financial statements.

The audit work involved is already covered by ISA 720 but requirement to include a statement could result in additional costs and might be a bigger issue for those countries that do not currently have an equivalent reporting requirement.

Clarifications and transparency

11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor’s report are helpful to users’ understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor’s responsibilities? (See paragraphs 81–86.)

YES

In our opinion, the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor’s report are helpful to users’ understanding of the nature and scope of an audit and are important because they help address the expectation gap. This wording is standard and because the IAASB is limited by the need to keep the auditor’s report short there is more detail that could have been included but has not made it into the report. In our view this wording could be interpreted as being defensive and boilerplate and the IAASB should consider including this wording on its website and not in the auditor’s report as is already successfully done in the UK with the scope of audit.

12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

We have no issues with regard to disclosing the name of the engagement partner on the auditor’s report. This is already done successfully in the UK and although the value is unproven there have been no impediments to such disclosure. We do ask the IAASB to consider some degree of flexibility allowing names not to be disclosed if the safety of the engagement partner or their family is threatened because they are named on the auditor’s report.

13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor’s judgment as part of Auditor Commentary? (See paragraphs 77–80.)

As stated above, we do not agree with the inclusion of auditor commentary on financial reporting matters but accept that investors might want further information about the audit approach and in particular the approach to a group audit. In our opinion, the suggested disclosure regarding the involvement of other auditors should not be required in all circumstances but should be left to the auditor’s judgement.
As already required by the Article 27 of the EC statutory audit directive, the group auditor bears full responsibility for the auditor’s report in relation to the consolidated accounts. We are concerned that additional disclosure about the involvement of other auditors could undermine the full responsibility that the group auditor has for the opinion on the group financial statements particularly if a large percentage of the group is audited by other firms and it could give the unintended impression of divided responsibility. A consequence of this is that audit firms could require that all audit work in a group where they are responsible for the opinion on the group financial statements is conducted by firms in their own network thereby maintaining their sole and full responsibility for the opinion on the group but at the same time reducing competition and variety in the audit market.

It is important that any reference to the involvement of other auditor does not undermine the requirement in ISA 600 para 11 that “the auditor’s report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such a reference”.

14. What are your views on explicitly allowing the standardized material describing the auditor’s responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor’s report? (See paragraphs 83–84.)

In our opinion, the IAASB should allow standardised material describing the auditor’s responsibilities to be relocated to a website of the appropriate authority or to an appendix to the auditor’s report. By definition this is standardised material and it is not necessary to include it in the auditor’s report.

The UK version of ISA 700 currently allows the scope of the audit to be disclosed in one of three ways:

- A short prescribed paragraph in the auditor’s report.
- A cross reference to a description elsewhere in the annual report.
- A cross reference to the description maintained on FRC’s web site.

Baker Tilly UK Audit LLP have used the cross reference to the website for a number of years in our audit reports and have had no requests for the audit report to include a more detailed description. It would be seen as a backward step by our clients if this was to happen and they would question the need for the inclusion of such boiler-plate material. In our opinion, the website link approach should be adopted for this sort of standardised material but, if this is not mandated, as a minimum there should be the option to include the link if firms prefer that method. We question whether the auditor’s responsibilities can be summarised in a short paragraph(s) and in our opinion it is better that the responsibilities are described in more detail via a website link.
Form and structure

15. What are your views on whether the IAASB’s suggested structure of the illustrative report, including placement of the auditor’s opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20.)

In our opinion, the suggested structure of the auditor’s report and the placement of the auditor’s opinion and the auditor commentary section towards the beginning of the report are appropriate. It helps to establish the importance of the pass/fail true and fair opinion and puts the most important matters at the beginning of the auditor’s report. It is important that in mandating a suggested structure the IAASB allow a certain degree of flexibility to allow for the requirements of national law and regulations.

16. What are your views regarding the need for global consistency in auditors’ reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)

In our opinion, one of the main strengths of the IAASB ISAs is their global consistency and this should be maintained. If an auditor is reporting that they have done an ISA audit then this should be done in the ISA audit report format. The IAASB format should however be flexible enough to allow additional elements to be added to reflect local requirements or national standards. We would however caution against the addition of ISA pluses that did not reflect local law or regulation and the IAASB should encourage any additional requirements to be kept to a minimum.

Important to maintain global consistency

17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)

As stated above, one of the main strengths of the IAASB ISAs is their global consistency and it is important that this is maintained. Although consistency can be achieved through mandating the order of the items in the auditor’s report and we have no issue with the order suggested it is important that the IAASB allows sufficient flexibility to reflect the requirements of local law or regulation.

18. In your view, are the IAASB’s suggested improvements appropriate for entities of all sizes and in both the public and private sectors?

NO

It is important to distinguish between the inclusion of an auditor commentary and the other auditor reporting improvements suggested by the IAASB. As long as the
IAASB allows sufficient flexibility to allow for compliance with local law and regulations then we have no particular issues with the application of the other improvements suggested by the IAASB to entities of all sizes in the public and private sectors. However, as stated above, we do not agree with the inclusion of an auditor commentary section for non-PIEs. If the auditor commentary is restricted to audit matters rather than commentary on financial reporting disclosures and a suitable definition of PIEs can be agreed then, because there are investors who argue they need to know this additional information, it may be appropriate to include an auditor commentary section in the auditor’s report on a PIE. In our opinion, there is no such demand from investors of non-PIEs and the cost and time effort involved would be disproportionately high when there is no perceived benefit and we do not agree that the inclusion of an auditor commentary is appropriate for non-PIEs.

What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

An important consideration to take into account when looking at SMEs is that they are largely owner managed with very little outside investor involvement and the owner, manager and those charged with governance are in most cases the same people. An owner manager of an SME will be communicating with the auditor on a regular basis and will have access to the full benefit of the auditor’s ISA 260 reports to those charged with governance and does not need to have that information repeated in an auditor commentary section in the auditors report. We do not consider that there is any demand for the auditor’s reports on SMEs to include an auditor’s commentary section and the cost and time effort involved are likely to be disproportionately high while adding very little value. In our opinion, the IAASB should make it clear that auditor commentary for non-PIEs is not mandatory and is not considered optional at the discretion of the auditors.

The auditors of public sector entities in the UK currently have a wider reporting responsibility including regularity, probity and value for money as well as matters of public interest. In developing their definition of PIEs we recommend that the IAASB consider how the public sector in the UK have dealt with wider reporting issues.