Our Ref: T/1

8 October 2012

Mr. James Gunn
Technical Director,
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017, USA

Dear Mr. Gunn,

IAASB INVITATION TO COMMENT ON IMPROVING THE AUDITOR’S REPORT

We are grateful for the opportunity to provide the comments on IAASB’s Invitation to Comment on Improving the Auditor’s Report.

We commend the IAASB on the bold steps it has taken in an attempt to improve the auditor’s report and make it more informative.

Our detailed comments are provided in the attached appendix.

We hope you will find our comments helpful. Should you have any additional inquiries please do not hesitate to contact us.

Mark Omona
TECHNICAL MANAGER
FOR: CHIEF EXECUTIVE OFFICER

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THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

COMMENTS ON IAASB’s IMPROVING THE AUDITOR’S REPORT

ICPAU supports the IAASB’s initiative to improve the auditor’s report. The paper introduces the concept of Auditor Commentary. The Auditor Commentary would provide additional information, not currently available, to many users of the audited financial statements. The concept of Auditor Commentary also deliberately goes well beyond the auditor’s current requirements under ISA 706.

We feel that there would be hindrances to provision of such commentary in the auditor’s report, in particular additional cost and liability to the auditor. We believe that such commentary may be interpreted as an extension of the scope of the auditor’s work.

If the concept of audit commentary is adopted, then a more specific criteria for matters to be addressed needs to be set. The criteria, we believe, should be set by the relevant National Standards Setter (NSS).

The specific questions in the Invitation to Comment are addressed below:

A. 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?

   Whereas we support the initiative taken by the IAASB in a bid to enhance the relevance and informational value of the auditor’s report we have concerns that some of these changes may prove too costly for the issuers of financial statements, particularly for small-and medium-sized entities.

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.

   We believe that the improvement of auditor reporting should be pursued by the IAASB in collaboration with the relevant regulatory bodies, such as capital market regulators, auditor oversight bodies and national standard setters.

   Ultimately, it is important that the views of the users of the auditor’s report (and audited financial statements) are heard. Any changes made to the auditor’s report should strive to address their needs. However, a balance must
be struck with the impact of these changes on the auditor’s work and responsibilities.

B. 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?

We believe that the concept of Auditor Commentary takes matters that would ordinarily have been addressed in the auditor’s management letter and makes such information more publicly available. Although, there might be a case for doing so for audits of financial statements of public interest entities, we do not believe that there should such a requirement for any other category of audits.

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?

Yes, we agree with the principle of allowing the auditor to make their own judgement on matters to be addressed in under the Auditor Commentary paragraph. We believe the Clarified ISAs generally encourage the auditor to do so and should therefore be the driver of any matters to be addressed in the Auditor Commentary.

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?

Although the examples of Auditor Commentary would no doubt provide additional information on the steps and considerations made by the auditor during the audit, we have reservations about the cost and liability implications that this may have on the auditor.

We believe that the matters that warrant disclosure would ordinarily be addressed in the emphasis of matter/other matters paragraph and therefore a more detailed description of the auditor’s procedures only serves to make the auditor’s report more bulky, less user-friendly and more subjective.
Our view is that auditor’s report should maintain a negative stance, i.e. a presumption that there is nothing to report in the case of an unmodified report. Where there is, the auditor should make the appropriate modifications to his/her report.

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?

We believe there is a need to separate the auditor’s responsibility from that of management/TCWG. We believe that management/TCWG have the duty and responsibility to highlight matters that would be of importance to the users of the financial statements i.e. matters of judgement, high risk or complexity. Requiring the auditor to highlight these matters might blur this philosophical line.

We feel that the provision of Auditor Commentary would make the audit more costly and is certainly of little value in an audit of SMEs.

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.)

We believe that at the most, if considered necessary, Auditor Commentary should only be required for audits of public interest entities. We believe that the criteria for determining other audits for which Auditor Commentary is required should be left to national standard setters.

C. 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?
We support the move to include a conclusion on whether the auditor finds appropriate the management’s use of the going concern assumption.

We, however, believe that the impediments to making a statement on the material uncertainties related to events or conditions that cast significant doubt on the company’s ability to continue as a going concern may prove to be too high. We find this to be a highly subjective area that is perhaps not the responsibility of the auditor. We suggest that the auditor’s role be strictly limited to evaluation of management’s use of the going concern assumption.

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?

We believe that this is a matter better dealt with through ISA 570 requirements. If there is a case for lowering the threshold for raising an emphasis of matter related to going concern, then ISA 570 requirements should reviewed to reflect this. We feel that a description of the auditor’s judgement and procedures performed may potentially increase the auditor’s liability but also result in unwanted disclosure of entity-specific information.

We again believe that this is a matter best left to management to decide.

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

We support the addition of a statement related to the work performed by the auditor on other information in the annual report. Such a statement is of informational value to the user of the audited financial statements. We feel that as long as the scope of the auditor’s responsibility is not extended to include an audit of such information, then there should not be any undue cost in making such a statement.

D. 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?

We support the enhanced descriptions of the responsibilities of management and TCWG as well as the description of their role relating to going concern.

Although we understand the need for further description of the auditor’s responsibilities, we think that the illustration provided is detailed and yet still does not provide a full description of the auditor’s role and work they are required to do.

We find that such description will unnecessarily increase the bulk of the report. We, therefore, suggest that for instance the bullet points provided in the illustrative auditor’s report should be taken out of the report and be provided in an appendix or on the NSS’s website.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

We strongly support the disclosure of the name of the engagement partner and the importance of the message it provides to him/her about their responsibility for the audit.

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?

We believe that the auditor’s responsibility for the work undertaken by other auditor’s should not be diminished by the disclosure of the role of other auditors.

We believe that rather than making the above disclosure, there should be a better description of the auditor’s responsibilities including the role of other auditors. This information would be provided in the appendix or the NSS’s website.

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?
We strongly support such initiatives and believe that his would be the only way to more elaborately explain the auditor’s responsibilities and work performed.

E. 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?

We support the placement of the auditor’s opinion towards the beginning of the report. As discussed earlier we think an Audit Commentary section may prove infeasible for audits of smaller entities.

We also support the reference to the notes to the financial statements.

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?

We support the need for global consistency in auditors’ report where ISAs or related standards are used.

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?

Save for the sections on going concern, audit commentary and description of auditor’s responsibilities, where we believe that some changes will need to be made. We encourage and advocate for consistency of the auditor’s report across different jurisdictions.

18. In your view, are the IAASB’s suggested improvements appropriate for entities of all sizes and in both the public and private sectors? 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?
In our view some of the suggested improvements would not be appropriate for audits of SMEs. Particularly, the audit commentary would place an unnecessary burden on SMEs.

In deciding, which entities fall within the definition of public interest entities (PIEs), we believe that NSSs would be better placed to provide such a definition within the context of social and economic considerations in their jurisdiction. We believe in many cases public sector entities would fall within the definition of PIEs.