

Auditor Reporting Update

Dan Montgomery, Auditor Reporting
Task Force Chair

IAASB Meeting – Agenda Item 9
September 21, 2012

New York, NY

Project Overview: Where Are We Now?

Research & Consultation

Academic research
(2006 – 2009)

Review of national developments /initiatives
(2009-2010)

Consultation Paper:
Enhancing the Value of Auditor Reporting
(May 2011)

Commencement of Standard Setting

Project proposal
(December 2011)

Task Force and Subcommittee Appointments
(January 2012)

Consultation on Indicative Direction

Invitation to Comment: Improving the Auditor's Report
(June 2012)

Comments Due
(October 8, 2012)

Roundtables
NY, Brussels & KL
(September – October 2012)

Next Steps

Exposure Draft
(June 2013)

Final Standards
(June 2014)

Visit the Auditor Reporting Page at www.iaasb.org/auditor-reporting for updates

Who Have We Met with Since June?

- IFRS Advisory Council
- IOSCO Committee No.1
- Standards Working Group of the Six Largest Accounting Firms
- European Parliament Rapporteur (JURI)
- Company Reporting and Auditing Group
- European Commission Staff
- US AICPA Auditing Standards Board
- Professional Accountants in Business Committee

Auditor Reporting Roundtables

Strong representation from various stakeholder groups across many countries, including IAASB CAG

	New York	Brussels
	40+ Participants	50+ Participants
Users	8	5
Preparers & TCWG	11	7
Regulators & Audit Oversight Bodies	4	12
Auditors, including SMPs	10	11
IFAC Member Bodies & Standard Setters	7	13

Overview of Roundtable Program

- Chaired by IAASB Chairman
- Three sessions introduced by IAASB Members
 - Auditor Commentary
 - Going Concern & Other Information
 - Clarification & Transparency
- For each session
 - Introduction
 - Panelists remarks to stimulate debate
 - Roundtable discussion
- ITC used as basis for discussion
 - Illustrative auditor's report

Overall Views

- Strong support for IAASB's efforts – impressed with the clarity and comprehensiveness of the options explored
- Provides a unique opportunity to reinvigorate the public's trust and confidence in the independent auditor and to increase the relevance of the audit
- Commended for bringing together a diverse group of stakeholders and for extensive global outreach activities
- “IAASB should not be doing this alone” – importance of improved and consistent corporate governance and financial reporting cannot be underestimated
- Diversity of views
- Doing nothing is not an option

Points of View about Auditor Commentary (AC)

Why Is AC Needed?

- Auditors have significant insights about the entity that should be conveyed in the auditor's report
 - More relevant and useful auditor reports can help investors better understand an entity's risks to help them make better decisions
- Auditors' subjective judgments could be more transparent
 - Calls particularly at European Roundtable for more about the audit
- Mixed views on whether AC should be used to help users navigate or understand the financial statements
 - While some see a role for the auditor, others believe that the auditor should not be seen as the authority to tell users what they need to know about the entity
 - Nothing keeping preparers from including a roadmap for users

Points of View about Auditor Commentary (AC)

How Could AC Be Operationalized?

- Could focus on significant audit risks and how auditor responded to those risks
 - Explain more about the decisions taken to plan and perform the audit
 - Highlight areas involving significant partner-level effort or involvement
- Could focus on accounting policies and estimates that the auditor determines are important
- Could be highly summarized information derived from discussions with TCWG
 - Needs to be flexible based on the entity's circumstances
 - Mixed views on whether this information should be provided by TCWG instead

Points of View about Auditor Commentary (AC)

What Are the Areas of Concern about AC?

- Preparers and TCWG have primary role of providing information to users
 - Corporate governance regimes, including reporting, vary – but recognition that the oversight role of TCWG is fundamental
 - Recognition that not all audit committees operate the same
- Summarizing information in a meaningful way likely to be difficult
- Making discussions with TCWG more transparent could compromise their effectiveness

Points of View about Auditor Commentary (AC)

What Are the Areas of Concern about AC?

- “Hidden qualifications” – may be seen as diluting an unmodified opinion or calling it into question
 - Pass/fail nature of an audit is fundamental, so commenting on subjective elements and acceptability of management’s judgments (e.g., where an estimate fell in a range) is inappropriate
- Mixed views as to applicability of AC
 - Strong support for listed entities
 - Mixed views on PIEs: concerns about definition being too broad
 - AC for audits of non-public entities should be voluntary
 - Don’t create differential reporting

Points of View about Auditor Commentary (AC)

- Strong view that audit fees will increase
 - As owners of the entity, some investors are not opposed to the increase as more information is valued
 - But in many cases, fees are negotiated and paid by management who may be less likely to tolerate a fee increase
 - Reality is that many entities continue to face cost-cutting pressures resulting from economic crisis
- Need to further understand legal implications, particularly in US

Points of View about Going Concern (GC)

- Auditors have a role to play in reporting information about going concern, but mixed views about how best to do so in light of the current auditing and accounting standards
 - Unless there is some fundamental change in how management reports on going concern, it will be difficult for IAASB to make substantial changes
- Conclusion regarding the use of the going concern assumption
 - Strong support at European roundtable
 - Questions about value at US roundtable
 - Could cause confusion among users if they do not understand what the conclusion means (could potentially widen expectation gap)
- Statement regarding identification of material uncertainties
 - Important to state that no material uncertainty has been identified but may need to do more to address investors' call for early warning signals

Points of View about Going Concern (GC)

How Could GC Reporting Be Operationalized?

- Information about going concern should not be more boilerplate
- Concern expressed that current EOM model does not provide timely information – reporting threshold should be lowered
- More guidance needed on the terms “material uncertainty,” “significant doubt,” and “foreseeable future”
- Holistic model preferred
 - Management to provide robust and meaningful disclosures about liquidity risks and other matters that bear on an entity’s ability to continue as a going concern
 - Auditor reports should refer to management’s disclosures
 - Such an approach could be less dramatic than an EOM in terms of “negative publicity”

Points of View about Other Information (OI)

- General support for more explicitly describing the auditor's responsibilities under ISA 720 in the auditor's report
- Proposed improvements to ISA 720 may address concerns
 - Auditor involvement with other information should be more substantive than just "reading"
 - Is it clear that material inconsistency covers matters that are misleading?
- If auditor has other reporting responsibilities for OI beyond ISA 720, they should be differentiated
- Investors use non-GAAP measures to make investing decisions, thus auditor involvement with such information should be explored

Points of View about Clarifications & Transparency

- Strong support for placement of the auditor's opinion first
- The decision to include identification of the engagement partner, where not current practice, should be determined by individual jurisdictions
 - Emphasis from smaller firm perspective that doing so likely to have implications on audit partner assignments, as “better known partners would be spread too thin”, potentially affecting audit quality
- Mixed views about disclosure of the involvement of other auditors
 - Support for having a generic description about the responsibilities of the group auditor, but limited support for disclosure of other auditors because of ISA 600
 - Information would be most relevant in circumstances where other auditors used were not subject to an inspection regime

Points of View about Clarifications & Transparency

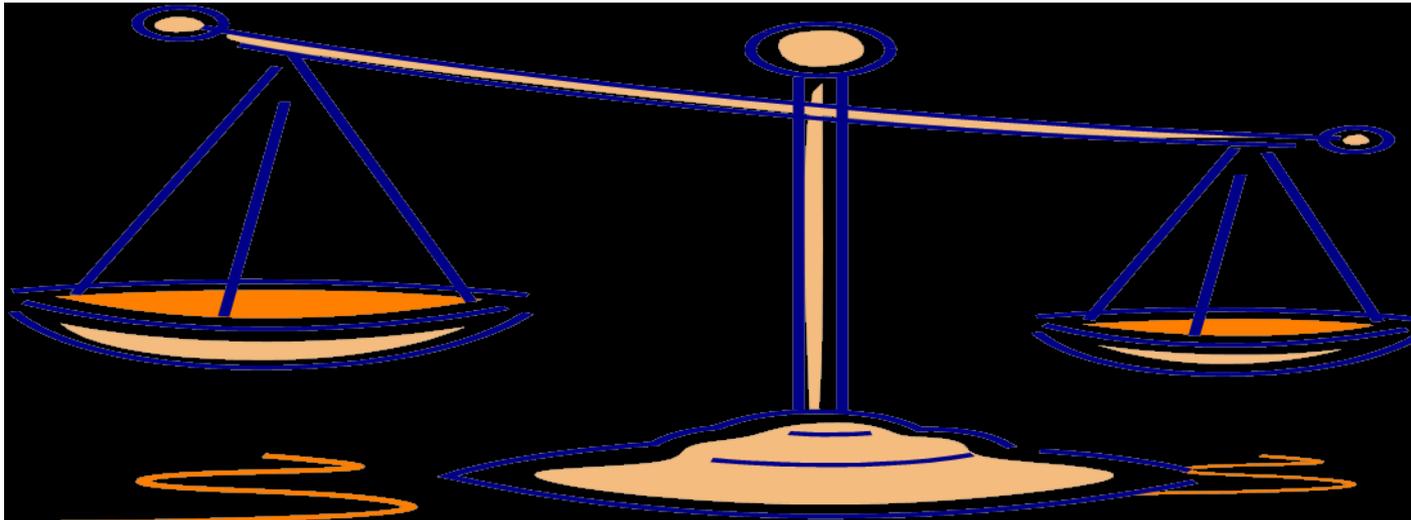
- Support for explicit statement of compliance with relevant ethical requirements, including independence requirements
 - Consider whether a more explicit statement of independence is needed
- Strong support for content of Auditor's Responsibility section
- Mixed views on whether this section should be placed elsewhere (e.g., website or appendix)
 - Longer section said to create reader fatigue (suggestions about style and format of standardized information)
 - Some support for having information accessible via a web link, but recognition that not all users may be able to access it
- Value of enhanced description may decline over time

Matters for the IAASB to Further Consider

- Information needs of users are addressed in a number of ways beyond the audited financial statements and more frequently than annually
 - Preliminary announcements and non-GAAP measures are of increasing importance
 - But audited financial statements provide an anchor
- How will interim reporting be affected?
 - Will auditor commentary have to be updated or referenced in interim reports?
- Are there other avenues to explore?
 - Assurance on internal controls on financial reporting?
 - Assurance or review of some or all Management's Disclosure and Analysis information?

Summary

Both value and impediments exist
Essential to strike appropriate balance



Strong desire for IAASB to move quickly and ambitiously

Upcoming Outreach Activities

- ACCA/European Parliament/ecoDa Roundtable
- IBR-IRE Information Session on Auditor Reporting
- NBA Information Session on Auditor Reporting
- Japan Outreach
- International Organization of Supreme Audit Institutions (INTOSAI)
- International Forum of Independent Audit Regulators (IFIAR)
- Australia Outreach
- New Zealand Outreach
- Forum of Firms Auditor Reporting Symposium
- Standards Working Group (of the Six Largest Accounting Firms)
- Roundtables for Finance Providers sponsored by ACCA
- IAASB Asia Pacific Auditor Reporting Roundtable co-hosted with ICAA, CPA Malaysia and MIA

What's Planned for December 2012 – June 2013?

- **December 2012**
 - High-level overview of responses to ITC and outreach since September 2012
 - Detailed analysis of auditor commentary, and preliminary TF views on the way forward
 - Select issues for IAASB decision
- **February 2013**
 - Detailed analysis of all other areas addressed in the ITC, and TF views on the way forward
 - Consideration of requirements for auditor commentary
- **April 2013**
 - First read of revised standards
- **June 2013**
 - Approval of exposure draft of revised standards

