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**IAASB Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA**

Dear Sir,

**Comments on Consultation Paper - Enhancing the Value of Auditor Reporting:  
Exploring Options for Change.**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Consultation paper issued by the International Auditing and Assurance Standards Board (IAASB). Our comments are as follows:

**Question 1**

Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

***Comment***

We agree that, there is need to narrow “expectation gap” and “information gap” otherwise auditor reporting will be irrelevant as it will fail to satisfy the needs of the users.

We believe that the current audit reports do not disclose information about the procedures performed but merely makes mention that audit involves performing procedures to obtain audit evidence. Further the audit reports do not mention what the judgements were that were made in forming an audit opinion and no mention is made of the result of the evaluation of the appropriateness of the accounting policies used the reasonableness of accounting estimates made by management. An explanation of these issues would enhance the transparency about the audit opinion.

We however have difficulties as to how the auditor might issue an independent assurance on the other broader information given that there are no benchmarks against which this information would be measured against.

## **Question 2**

If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

### ***Comment***

We do agree that changes in auditor reporting are needed; the current auditor's reports are too general and not informative. We believe the auditor's report could be improved if changes were made to the format and structure (i.e. through extensive disclosures) so that the users can be well informed about the extent of the work which was done before they can rely on the report.

The classes of users which are most affected by these issues are capital providers in large entities.

We also believe that management is not affected by these issues as they get the issues from the auditor in the Management letter.

## **Question 3**

Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

### ***Comment***

Though the changes are most needed for audits of listed entities, because auditor's reporting for audits of smaller entities may be relatively less affected and transactions which are normally involved are not complex, the users of the smaller entities would benefit from the

transparent audit reports that are being proposed in the consultation paper. Having different types of audit reports might actually increase the lack of understating of the audit reports. Moreover, entities graduate from being small to medium and large over time and so it would in the interest of the users of such entities to have a standard audit report.

#### **Question 4**

Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

#### ***Comment***

We are of the view that changes regarding the format and structure of the standard auditor's report described in Part A will narrow the information gap perceived by users or improve the communicative value of auditor reporting.

We support the option of relocating the opinion paragraph to immediately after the introductory paragraph in order to give it prominence. We do not support the proposal of providing explanations of the technical terms of the key auditor's report as this is likely to increase the lack of understanding of the Audit report. We would support the need to explore the use of less technical language in the report.

We support the third option of retaining the paragraphs dealing with management and auditor responsibilities but relocated to the end of the report.

#### **Question 5**

If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

#### ***Comment***

We are of the opinion that if the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed, this might have the unintended consequence of widening the expectations gap. Our position is that these paragraphs should be retained but expanded in order to provide essential circumstantial information for a reader's proper understanding of the auditor's opinion. As indicated in our

response to question 4 above, relocation (but with expanded description) to the end of the audit report would solve the problem to widening the expectations gap.

### **Question 6**

Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

#### ***Comment***

We do believe that including a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements would be of benefit to users as they make their decisions. The inclusion of such a statement would make it clear to the users that the auditor has no specific responsibility for determining whether or not other information is properly stated.

### **Question 7**

If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

#### ***Comment***

The statement could be included under the paragraph explaining the auditor's responsibility but clearly differentiated from the responsibility for financial statements and responsibility for other information. We are of the opinion that there should be an explicit statement as to whether the auditor has anything to report with respect to the other information.

### **Question 8**

Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

#### ***Comment***

Though providing supplementary information about the audit in the auditor's report on the financial statements would provide greater transparency into the entity, its audited financial statements, and the audit performed, we are of the view that this might increase the lack of understanding of the audit because of the technical language that the auditor will have to use

and possible distraction that such information may have on the audits. Further more, the additional information (disclosures) might be in conflict with what management has disclosed about the entity in the annual report and hence might increase the auditor liability.

### **Question 9**

Respondents are asked for their reactions to the example of use of “justification of assessments” in France, as a way to provide additional auditor commentary.

#### ***Comment***

We consider the use of “justification of assessments” as done in France, as a way to provide additional auditor commentary to be appropriate as it is likely to enhance the communicative value of the auditor’s report though this approach still leaves judgement as to what is considered as key areas of the financial statements to the auditor. The information about the audit procedures performed in those areas by the auditor would add credibility to the value of the audit. In order to reduce the use of judgement by the auditor as to the areas to report in the ‘justification of assessments’ paragraph, possibly a Standard on auditing could be developed that would help auditors in identifying the areas that are key to the financial statements.

### **Question 10**

Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor’s report.

#### ***Comment***

We do not agree of the auditor providing insights about the entity or the quality of its financial reporting in the auditor’s report, this must remain the responsibility of management and those charged with governance. The insights provided by the auditor might be different from that provided by management and hence will be a burden on the users as to which disclosure to rely upon when making decisions about the entity. Further as highlighted in paragraph 73, this might compromise the independence of the auditor.

### **Question 11**

Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

***Comment***

We welcome the proposed enhanced model of corporate governance reporting. We believe that though in Zambia there is no requirement by those charged with governance of the entity (or the Audit Committee) to report to the shareholders, such a model will be useful in helping those charged with the governance to fulfil their oversight responsibilities.

**Question 12**

To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

***Comment***

We believe the major challenge that may be faced in promoting this model is the use of different corporate governance models in different jurisdictions. One way to influence the acceptance or adoption of this model is to ensure that those responsible for regulating the financial reporting process push for a change in national laws where formal reporting between the independent auditor and those charged with governance does not exist. Secondly, the board could come up with a paper that provides the benefits of applying such a model and how it has helped users in those jurisdictions where it has been applied. Further, the paper should include the pitfalls of the current governance model.

**Question 13**

Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

***Comment***

We believe there is need for further guidance on how this would work. Our understanding of the enhanced governance model is that the independent auditor is supposed to provide an expanded report to those charged with governance that will provide insights about the entity, the audited financial statements, and the audit process. Those charged with governance (or Audit Committee) would then issue a report to users of the financial statements with information about its oversight of the financial reporting process and the audit. The auditor's report to those charged with governance would be an input to the audit committee report. How then would the auditor provide an assurance on the audit committee report on its completeness and reasonableness when his report to those charged with governance is input

to their report? On this basis we believe the assurance by the auditor on a report issued by those charged with governance would not be appropriate.

#### **Question 14**

Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

#### ***Comment***

We believe that the provision of assurance or related services on the information not within the current scope of the financial statement audit that is deemed to be of value to management of the entity as well as external users is a welcome development. However, we believe that the provision of such assurance or related services should not combined with the assurance given on the financial statements as doing so will bring confusion among users particularly those with little knowledge of financial reporting.

#### **Question 15**

What actions are necessary to influence further development of such assurance or related services?

#### ***Comment***

In order to influence further development of such assurance or related services, there is need for the board to develop papers promoting the value of such assurance or related services and also develop standards that could be applied to such assurances or related services.

#### **Question 16**

Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

#### ***Comment***

(a) Benefits;

1. Understandability will be enhanced, which will aid in making economic decisions by the users.
2. Expectation gap and information gap will be narrowed.

3. Proposed new format and structure of auditor's report will improve communicative value of the current auditor's report
4. Re-location of the opinion paragraph will give it the emphasis it deserves

(b) Costs;

1. Providing additional information or other services will increase the audit fees.

(c) Other implications of change, or potential challenges;

1. Differentiating the responsibilities of Management and Auditors.
2. Change the competencies needed to perform additional reporting.
3. Change of training for auditors
4. Development of new standards to guide on how to deal with the new proposals
5. Additional auditor commentary would affect the nature or extent of the interactions between different parties in the financial reporting process.
6. Changes in liability exposures for management, those charged with governance and auditors.

### **Question 17**

Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entity? If not, please explain how they may differ.

#### ***Comment***

We do believe that the benefits, costs, potential challenges and other implications of change will vary depending on the types of entities. The benefits are however likely to be the same for all the entities e.g. improves understanding of the audit report by users is cross cutting for all entities – large and small. The audit fee costs are likely to be the same for all entities. However, some of the implications will be more on the large entities than on the smaller entities. For example, the auditor commentary would cover more issues in the large entities in comparison to the smaller entities



### **Question 18**

Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

#### ***Comment***

We believe options in parts A and B will be more effective in enhancing auditor reporting. We believe the other options will instead increase or complicate auditor reporting hence add another burden onto the users who already have difficulties to comprehend the current audit report.

Because of the implications of the proposed changes in Part D and E, we believe the IAASB should explore opportunities for collaboration with others.

### **Question 19**

Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?

#### ***Comment***

We have got no other suggestion. We believe most of the issues have been addressed in the discussion paper.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

**Musonda Boniface**  
**Technical Officer**