



By E-mail

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017
United States of America

06 October 2011

Dear Sir / Madam,

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

The Dubai Financial Services Authority has taken this opportunity to provide commentary on Consultation Paper – Enhancing the Value of Auditor Reporting: Exploring Options for Change.

The DFSA strongly believe that it is about the right time to enhance the quality, relevance and value of auditor reporting as these are required to respond to the needs of investors and other users.

We are happy to provide any further elaboration or clarifications on the issues raised and can be contacted on +971 4362 1549 or by e-mail on nlalani@dfsa.ae.

We look forward to participating in any further work in this area.

Yours sincerely



Matt Gamble
Director, Head of Anti-Money Laundering, Supervision

Comments on Consultation Paper

Enhancing the Value of Auditor Reporting: Exploring Options for Change

October 06, 2011

Question 1

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

The Section II rightly identifies the difference between the “Information Gap” and “Expectations Gap”. The paper also identifies the significant issues and challenges related to information gap.

Although, expectations gap has always been an important issue with reference to the work done by an auditor and it is perceived that issues related to expectation gap have been addressed in the past however, the DFSA believes that the Paper has not sufficiently identified issues and challenges related to the expectation gap.

The Auditor’s report today is valued only in terms of the opinion expressed. Due recognition is not provided to the other information which auditor has included in the auditor’s report. Therefore, the DFSA believes that there is a room for improvement in the structure and wording of the auditor’s report to increase its communicative value.

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?

The DFSA strongly believes that changes in auditor reporting are needed and is supportive of changes that would narrow the information gap for users.

Additional reporting by auditor on the following would assist in narrowing the information gap as perceived by the users:

- a) Key business, operational and audit risks the auditor believes exist.
- b) The auditor’s perspective on the key assumptions underlying the judgments that materially affect the financial statements, and whether those assumptions are at the low, most likely, or high end of the range of possible outcomes.
- c) The appropriateness of the accounting policies adopted, including any that are inconsistent with industry practice.
- d) Changes to accounting policies that have a significant impact.
- e) The methods and the judgments made in valuing assets and liabilities.
- f) Significant unusual transactions.

- g) Key audit issues and their resolution which the engagement partner documents in a final, summary audit memo.
- h) Quality and effectiveness of the governance structure and risk management.

This information should be provided by those charged with governance and requiring auditor to add credibility to this additional information through the assurance report.

Question 3

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

The DFSA believes that changes are not needed for audits of all types of entities.

Any changes which would result in reduction of expectation gap should be implemented for all types of entities (listed or non-listed) but subject to cost and benefits associated with those changes.

With reference to changes resulting in reduction information gap, care should be given to the cost associated with these changes. All such changes should only be implemented for non-listed entities if the benefits outweigh the cost.

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?

The DFSA supports the changes to the standard auditor's 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?

The DFSA does not believe that re-positioning the management and auditor's responsibility would result in unintended consequence of widening the expectations gap however, if the same are removed, it may result in widening the expectations gap. First and foremost, it is management's responsibility to disclose.

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?

The DFSA supports inclusion of a reference in the auditors' report to the auditor's responsibility with respect to other information with a view that such a reference will contribute to a reduction in the expectation gap of the user of the financial statement.

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?

The DFSA believes that it is sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements. Any explicit statement as to whether the auditor has anything to report with respect to the other information should only be done when it is necessary to do so.

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.

Generally, the DFSA believes that there should be some mechanism through which the auditor is able to report on the additional information identified in this Paper. However, as clearly discussed in the Paper, the disadvantages associated with such report outweigh the benefits associated with them.

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.

The DFSA is not sure whether "justification of assessments" in its current form can be an efficient way of providing additional auditor commentary.

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.

The DFSA agrees with the statement in paragraph 73 of the Paper whereby the auditor is not responsible and should not take any responsibility for disclosure of information about the entity to users of the entity's audited financial statements. This must remain the responsibility of the management and those charged with governance.

If auditor is required to provide such information, it will be perceived that auditor is communicating on behalf of the management and those charged with governance.

Auditor's role should be restricted to providing assurance on the information provided by the management and those charged with governance.

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.

The DFSA supports the enhanced model of corporate governance reporting. This consistent with our response in Question 10 whereby reporting such information is responsibility of the management and those charged with governance while the auditor's responsibility is to provide assurance on such information.

This, of course, is subject to cost-benefits analysis of implementing such a model.

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?

The challenges will largely depend on the existing models being in place in the various jurisdictions. The challenges will be minimal where such corporate governance reporting is already in place by virtue of national standards.

Consistent application and acceptance will be a major challenge due to diversified nature of such corporate reporting in various jurisdictions.

Question 13

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

The DFSA believes that assurance by an independent auditor will provide credibility to the reports issued by those charged with governance.

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.

The DFSA believes that implementing such a requirement should not be mandatory. Generally, in most jurisdictions, entities have access to such reports from auditors and they are often utilised, when needed.

However, if implemented, due consideration should be given to the cost associated with such a reporting.

Question 15

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

This should be a matter for national standard setters. The DFSA does not support implementation of such a requirement.

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.

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.

Please refer responses in Question 4 to 15.

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?

The DFSA believes that most effective option is to enhance the corporate reporting by those charged with governance. The auditor should be required to provide assurance on additional information reported by those charged with governance.

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?

The DFSA believes that information gap will remain in existence, though it can be narrowed down by implementing some of the changes proposed in this Paper.