

Dear Sir or Madam,

The Office of Chief Accountant (OCA, also Accounting Department) of the China Securities Regulatory Commission appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB) Invitation to Comment: *Improving the Auditor's Report* (the Paper). As the oversight body of the auditors practicing in Chinese securities and futures markets, the OCA is dedicated to enhance audit quality for the markets so as to protect investors' rights and interests.

We highly appreciate the IAASB's great effort for pursuing improvements to the auditor's report. Our comments attached reflect matters on which we have seek opinions among various parties.

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?
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.

Comment.

We have no comment.

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?

Comment.

We support the concept of Auditor Commentary (AC) but suggest that the IAASB consider the continued but expanded use of EoM and OM paragraphs to achieve its objectives.

If the objective of helping users to more quickly grasp the salient points of the financial statements can be achieved, AC will help to focus users on these matters; thereby helping to enhance users' understanding of how they affect an entity's financial position.

However, the risk lies in users' reading AC in lieu of the entire financial statements. This would have an opposite effect as users may be neglecting important information. To safeguard against this, we suggest that the purpose of, and limitations of, AC should be clearly set out in the first paragraph (i.e., what Auditor commentary is and what it is not).

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?

Comment.

Yes, we agree. We expect that the selection of matters to be included in AC and emphasis will vary across different industries. To a large degree, this would be a matter of judgment for the auditor. Notwithstanding that, without sufficient appropriate guidance, it will be difficult to ensure the comparability and quality of AC.

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?

Comment.

Yes, the examples contain valuable information. However, within the illustrative examples we noted the following:

- The example related to measurement of financial instruments only points out investor-related risks and certain procedures. The value of such information to users is not immediately apparent
- Disclosure of work performed by other auditors may result in a lowering of users' trust of the affected areas. As such, if this approach is to be adopted, the auditor's sole responsibility for the audit will need to be further highlighted to boost users' confidence.

We also believe that criteria for formulating AC need to be provided to achieve standardization of the basis, content and scope to be applied by auditors.

Presently, the auditor's report describes standardized audit procedures. This does not offer investors valuable information, and does little to boost investor confidence or improve audit quality. We suggest therefore that, without more evidence to suggest otherwise, the value of additional disclosure in AC of audit procedures and related results remains questionable.

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, the timing of financial statements, and costs?

Comment.

We expect that requiring AC in the auditor's report will result in (i) increased work effort by senior audit staff; (ii) increased communication between auditors and management and those charged with governance, and (iii) (thereby) increase audit effort and cost.

Views on Paragraph 63:

- A. Setting of standards/criteria for AC can improve comparability. However, too much emphasis upon comparability may result in AC being "boilerplate" and therefore less informative and valuable to users.
- B. Content meant provide background information for educating investors could be placed in the first paragraph of AC.
- C. AC should be sorted in order of its importance as judged by the auditor, rather than the order of appearance in the financial statements.
- D. A statement should be included in the first paragraph of AC to warn users against inappropriate reliance on AC as a substitute for reading the financial statements.

- E. AC is new. Over time, it may become more standardized and implementation may improve. However, it is currently premature to consider standardization.
 - F. Good communication by the auditor with management can avoid overlap in the information provided by the auditor and those provided by management.
 - G. Obtaining written acknowledgement from management and those charged with governance can help avoid disputes over the auditor's AC disclosures.
7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities), 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?

Comment.

We agree that AC should be provided for audits of listed entities. Because the definition of public interest entities differs across jurisdictions, We suggest that it would be appropriate for standard setters in different countries to determine whether AC should be required for audits of such entities.

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?

Comment.

Both costs and benefits should be taken into consideration when determining whether an auditor's statement of an entity's ability to continue as a going concern should be included in the auditor's report.

Although the proposed statement is making explicit what is currently implicit in ISA 570, the following likely flow on effects needs to be considered:

- The possibility that users may take false assurance from the Going Concern statement (i.e., that the auditor is not opining on the appropriateness of the basis for preparation of accounts underlying but the viability of the business model (the latter being a management function). Should this scenario result, this would widen the expectation gap).

The IAASB is urged to examine these in greater depth before finalizing its position particularly to consider as much evidential information as possible. The results will be important in determining whether proposals would be implementable.

In addition, we fully support the IAASB's liaison with IASB. We believe the underlying issue with Going Concern is rooted in the lack of clarity regarding accounting terminologies (going concern, significant doubt) which potentially result in inconsistent understanding and application of accounting rules. We believe any progress on this front will bring about value.

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?

Comment.

We do not think that information regarding auditor's judgments and audit processes are of value to users.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

Comment.

The IAASB's suggestion for the auditor to make a statement regarding whether the auditor has identified material inconsistencies between the other information and the audited financial statements is appropriate. This suggestion aligns with the requirements of the existing auditing standards.

However, given that the IAASB plans to issue a revised ISA 720 in the near future, the IAASB needs to align the timing of this work stream with that of auditor reporting work stream including considering the effective date of revised ISA 720.

Clarifications and Transparency

11. Do you believe the enhanced descriptions of the responsibilities of management, those charged with governance, 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?

Comment.

Yes, clarification of each parties' responsibilities will help users better understand the nature and scope of an audit. In addition, we suggest clarifying: (i) the responsibilities of those charged with governance; and (ii) the relationship between management's responsibilities and the audit, to enhance users' understanding of the relevant responsibilities and relationships.

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

Comment.

From the point of view of regulation, the audit firm and the signing CPA are both accountable in an event of an audit failure. We therefore have no issue with requiring disclosure of the name of the engagement partner. This also increases transparency for users, and through increasing auditors' awareness of their responsibilities, facilitate regulation.

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?

Comment.

Use of other auditors' work mostly occurs in group financial statements audits. The group auditor is responsible for the direction, assessment and review of the group audit engagement, carried out based on an understanding of component auditors. The group auditor has sole responsibility for the group's audit report. Whether other auditors' work should be disclosed in the auditor's report should depend upon demand from investors.

We feel that the illustrative commentary on time spent by other auditors and proportion of work contributed are of limited value. We suggest instead that the reasons for using other auditors' work and the content of that work be disclosed. Such information will help alleviate users' confusion on performance of work.

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?

Comment.

We disagree. We have noted that the illustrated listing of the auditor's responsibilities only includes the major tasks performed by an auditor. This does not sufficiently meet with the intention of enhancing communication between auditors and users.

Citing directly the requirements from auditing standards will not satisfy users or facilitate a better understanding of difficult technical terms. Simple, plain English descriptions can better clarify the auditor's responsibilities. Citing materials from the auditing standards are of limited use.

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?

Comment.

Previously, the IAASB has considered a building blocks approach which allows greater flexibility. We suggest that the IAASB further consider that and allow standard setters across jurisdictions to determine the ordering of the elements within auditors' reports including the parts (e.g., each party's responsibility, auditor commentary) that should be placed within the report or as attachments. This is best based on what would suit the national environments.

If AC is to form a part of the main body of an auditor's report, the IAASB should consider developing a separate standard. We suggest that including AC as an attachment to the auditor's report would avoid this difficulty and help with implementation.

Also, we have noted that the illustrative auditor's report, despite being made up entirely of clean opinions, is four pages long. We are concerned that excessively long auditor's reports may impede users' identification of the most important, essential information.

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?

Comment.

Increasing consistency in auditors' reports will drive their use amongst investors. Mandatory elements in the auditor's reports could be determined in globally recognized auditing standards. We believe that their scope and ordering should be permitted to be tailored to unique national circumstances.

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?

Comment.

As mentioned above, we believe that the IAASB can consider a more flexible building blocks approach to developing standards and templates. At the same time, standard setters across jurisdictions should be given the flexibility to tailor the ordering of items to accommodate national circumstances.

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?

Comment.

Understanding and implementing the IAASB's suggested improvements requires time and imposes costs. Investors in SMEs may not require the same quantity of information as those in listed entities and public interest entities. As such these proposals may impede the SMEs' growth.

With this in mind, standard-setting proposals could be implemented in phases, or its implementation determined by national standard setters taking into account unique national circumstances.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Hai jun Li (haijun@csrc.gov.cn).

Sincerely,