

Attn: IFAC

22nd November 2013

**Comments on: Reporting on Audited Financial Statements:
Proposed New and Revised International Standards on Auditing**

Changing auditor liability to align better with the Public Interest

Two changes, both of which I welcome, will make an auditors job more onerous:

1. The proposed requirement that auditors advise significant areas of management judgment and how these areas were covered by their audit.
2. The increasing importance of ESG data and the need for this data to be assured.
This is particularly true for integrated reports which put the ESG data together with the financial data.

Both changes require the auditor to express an opinion on more complex and judgmental areas. If this is done without a change in auditor liability the cost of assurance will increase significantly. It is therefore in the Public Interest for auditor liability to be reformed at the same time as the proposed additional reporting is introduced.

Put simply, auditor performance should be motivated by criminal penalties controlled by the market regulator rather than by the risk of being sued by parties who have relied on the audit opinion. Without this change liability risks will make it difficult and unduly expensive for auditors to provide additional information on areas of management judgment and assurance on ESG data.

Please see the attachment for more detail on this point.

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A proposal for the future assurer negligence liability

Considerations

The public interest is best served by 'affordable assurance' of financial and sustainability reports done with due care, providing informative reports to the public and a more detailed commentary and recommendations to the management of each organisation audited.

Sustainability reports and the extended commentary proposed by the IAASB deal with more subjective information and more forward looking information than traditional financial reports. Applying the liability standards which have evolved for traditional financial report assurance is therefore likely to lead to very expensive assurance exercises and assurance reports which say very little.

A proposal for the future assurer negligence liability

Given the issues noted above we need new laws on the assurance of sustainability information. These laws should:

- Provide for a professional body to set rules for how sustainability information can be assured including minimum levels of information provided by audit reports.
- Provide that if an assurer reports according to these rules and is negligent he will not be liable for any civil claims for damages but will, instead, be subject to public prosecution for negligence with penalties of public reprimand, fines limited to a multiple of the assurance fee charged and either community service or prison terms for the person(s) who responsible for a negligent assurance report¹.

To further explain the rationale for this recommendation:

- The risk of public prosecution for negligence should be set at a level appropriate to motivate due diligence by assurers. It should not however be higher than this level as this will lead to excessive assurance cost and an unwillingness by assurers to provide commentary.
- The users of the reports lose their ability to seek compensation if the assurance is defective due to negligence but will know this when they read the report. They will also know the penalties the assurers face from the authorities if they are negligent. The report users therefore can, and should, exercise their judgment when deciding the extent to which they depend on the assurance statement.

Benefits of this proposal

This proposal should lead to cost effective assurance of sustainability information prepared with due care and reported in a manner which is valuable to report users.

¹ In the USA the role of the Public Company Accounting Oversight Board might extend to overseeing the rules set by the professional body and deciding when to prosecute assurance providers for negligence.