

IAASB Consultation Paper

Enhancing the Value of Audit Reporting: Exploring Options for Change

General comments

It is clear from the research that the auditor report has value in the eyes of investors, however it is clear also that the expectation gap exists. The auditor report has changed in recent years, however the changes are not so significant. The investors, owners and other users are waiting for more and detailed information from the auditors.

On one hand, the Chamber of Hungarian Auditors agrees to provide a bit more or detailed information about the audit procedures and about the entities, entity's risk but, on the other hand, we must emphasize that, before any extension in our report and/or our work, the first step must be the changes in the auditor liability regime. The liability limitation is necessary. Currently, in Hungary the auditor, who signs the audit report, has unlimited civil and criminal liability.

Answers to Specific Questions

Issues Identified

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

We believe that the auditor report has value, and we understand that there is a need for more transparency in the report of key financial elements and risks. However, original information about the entity cannot and should not be produced by the auditor and there is a need to address deficiencies in financial reporting. Auditors cannot disclose what they are not privy to and management will not furnish auditors with information that they are not prepared to disclose themselves. Regulators have to put more pressure on companies to provide better quality disclosures.

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?

Changes to the auditor liability regime are necessary if auditors are to be reasonably expected to be more forthcoming in what they report. The education and the communication are important for a better understanding regarding the auditors role and responsibilities.

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

It is important to recognise that the issues raised in this paper are largely relevant to listed and larger entities. For the smaller entities some additional information in the audit reports would be important also, but not the same as for the listed and larger entities.

Exploring Options for Change

A. Format and Structure of the Standard Auditor's Report

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?

We can support changing the content of responsibility statements, and such a change might fulfil a need among auditors to articulate their position and the entity's management position more clearly. However, it is unlikely to have a significant impact on what users believe auditors are or should be doing.

4. 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?

We cannot agree to remove the paragraphs regarding management and the auditor's responsibilities because this can expand the expectations gap and the auditor's risk.

B. Other Information in Documents Containing Audited Financial Statements

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 auditor's responsibilities regarding other information are included in the audit reports in Hungary.

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?

We do not believe that substantial changes to ISA 700s will improve this situation. The current wording in the standards is appropriate.

C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit

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.

Reporting on significant risks can provide value. We do not believe that describing our audit procedures will be useful for the users. We do not believe that reporting on materiality or significant internal control deficiencies within the audit report would be feasible without a high risk of misunderstanding given the complexity of both matters and the need for context.

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.

There are mixed views of the effectiveness of French justifications of assessments. They appear to provide interesting information but maybe not every user can understand the additional information if they use technical language and if the situation is complex.

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.

We believe that 'insights about the entity or the quality of its financial reporting', is subjective for auditors and would be very difficult or impossible to define, what is good, or acceptable, or not acceptable. In addition, to report on this opinion publicly would increase auditor's risk within the current liability regime.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

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.

We are pleased that IAASB has recognised the relevance of the wider issue of corporate governance to auditor reporting and we believe that IAASB could usefully take this debate to different jurisdictions in order to obtain an in-depth and balanced view.

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?

We believe that it is important to keep recommendations at a high level in order to accommodate different ways of doing things. We believe that to increase the awareness is important also.

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

We do not believe that to give assurance by the auditor on a report issued by those charged with governance would be appropriate.

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

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.

Extending the scope of reporting needs more and maybe different audit procedures. Agreed-upon procedures are often the most appropriate form of auditor involvement in alternative measures.

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

We suggest to look at costs and benefits analysis and develop or modify standards.

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.

While we believe that no big change is necessary regarding the format and structure of the audit report, the benefits will be limited. If the change will be significant and the auditor have to take additional statements, it can increase the audit risks.

Changes to entrenched corporate governance models will take time to achieve and we believe that it will be helpful for IAASB to facilitate this debate.

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.

The costs of any change are likely to be greater for smaller entities and the benefits will likely be very limited.

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?

We agree to provide more or detailed information about the audit procedures and about the entities, entity's risk but we must outline that before any extension in our report and/or our work, the first step must be the changes to the auditor liability regime.

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?

We believe that using a less technical language can help to reduce the expectation gap.

Prepared by Judit Lado, Technical Vice President, Chamber of Hungarian Auditors.

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