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International Auditing and Assurance Standards Board
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16 September 2011

Dear Sir/Madam:

Consultation Paper - Enhancing the Value of Auditor Reporting: Exploring Options for Change

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your request for specific comments on the aforementioned Consultation Paper issued by the IAASB in May 2011.

Our responses to the specific matters on which the IAASB is seeking feedback are set out below.

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

We agree with the issues identified in Section II. In particular that:

- the inclusion of independent assurance regarding the reliability and completeness of certain corporate information would help financial statements users to make more informed decisions;
- the content of the auditor's report is not viewed as being as useful or informative as it could be;
- the auditor's report could be improved if changes were made to its structure and wording; and
- there exists an information gap and an expectation gap in relation to the auditor's report.

However, we have reservations if some of the additional information is provided directly from the independent auditors. We are concerned that this would adversely affect the division of responsibility between the management and independent auditors. Management should retain responsibility for the provision of the information disclosed about the entity. In addition, the independent auditors might lack knowledge in providing certain information about their clients to the financial statements users.

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 reasons for the issues identified in respect of the information gap and improving the communicative value of auditor reporting can be summarised into two major areas:

- financial statement users do not fully understand the meaning of the auditor's reports; and
- the auditor's report could include more relevant and useful information for the financial statements users.

Therefore, we consider that changes in auditor reporting are needed and would benefit all classes of users including owners, stakeholders, analysts, creditors, etc.

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

We do not believe that auditor reporting for audits of smaller entities is relatively less affected by the identified issues. We are of the view that the information and expectation gap identified also exist for auditor reporting for audits of smaller entities. The focus on listed or larger entities may result in the effects on smaller entities being overlooked.

It would be appropriate to retain consistency in auditor reporting for all types of entities, regardless of their size. It is not necessary to have a different format or wording for auditor's reports for large and small entities when all audits are subject to the same set of auditing standards. The use of a different wording or format for the auditor's report for different types of entity may create confusion about the meaning of the 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?

The responsibilities of management and auditor are important to the users' understanding of the basis of preparation of the financial statements and the audit report. We would support the use of additional wording that clarifies the division of management and auditor responsibility.

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?

As noted above we would not support the removal of the current standard paragraphs dealing with management and auditor's responsibilities as these are important in setting the context of the financial statements and the audit report. However, there is scope for the description of the audit process to be provided elsewhere for example by way of a link to website or by the inclusion of an appendix describing key technical terms used in the audit report. This could enable a more detailed explanation of the audit process to be provided so that the information gap is reduced. The reduction of standard information in the audit report should increase its clarity.

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?

It would be beneficial to users if a clear statement regarding the auditor's responsibility with respect to other information included with the audited financial statements for material inconsistency with the audited financial statements were included in the audit report. The addition of a description of the auditor's responsibility for such information would not expand the auditor's responsibility but would result in more transparent auditor reporting.

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 audit report should describe the auditor's responsibilities for other information in documents containing audited financial statements. Any reporting should be by exception on matters where information is not consistent with the audited financial statements.

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.

As noted in our response to Q5, consideration should be given to removing the standard detail about the conduct of an audit to a separate location. This would increase the focus of the audit report on the respective responsibilities of management and the auditor. Where the auditor considers that significant uncertainties exist then these are indentified and explained in the audit report. However, the provision of additional information in respect of the audit work in these areas would risk excessive disclosure which would reduce the clarity of the emphasis of matter.

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 preparation of the financial statements and the judgments made are the responsibility of management. The "justification of assessments" by the auditor could reduce the perception of independence and the auditor could become biased in future periods to existing judgments. Management should be encouraged to make appropriate disclosures regarding the judgments and assessments made in preparing the financial statements.

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 role of the auditor is not to provide insight about the entity or the quality of its financial reporting but to express an opinion on the financial statements. The provision by the auditor of insights about the entity or the quality of its financial reporting would be subjective in nature and could result in significant additional cost both to preparers of the financial statements as a result of more time being spent in lengthy discussions with the auditor, and to auditors as a result of the time required to prepare the analysis and the review processes that firm's would be required to apply. In addition, it is possible that any disclosure of this nature will move towards a standard form of wording that adds limited value to the financial statements and audit report.

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 would support changes relating to an enhanced model of corporate governance reporting. Any changes need to be balanced between the various parties that contribute to the corporate governance model. The changes should include improvement in disclosure by preparers, appropriate oversight by those charged with governance and disclosure of how that oversight is discharged and the role of the auditor in reporting on disclosures. Any changes need to be accepted by all parties.

Consideration also needs to be given to the role regulators can play in improving corporate reporting.

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 the major challenge is to develop a financial reporting model that delivers relevant reliable information that meets the needs of stakeholders in a concise manner and with an appropriate level of assurance from the auditor.

A detailed cost benefit analysis and support from the full range of financial reporting stakeholders will assist with acceptance of the model.

Additionally, potential changes should be introduced on a phased basis so that the impact can be assessed before further changes are introduced.

Any changes introduced must maintain the clear division between the responsibilities of management as preparer and the auditor in providing assurance on the reports.

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

We believe, subject to a detailed cost benefit analysis and the development of appropriate standards against which the report by those charged with governance could be assessed, an assurance report by the auditor would be appropriate.

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.

We agree that value could be added if the auditors could be involved with, or provide assurance on, certain information of the reporting entities (e.g. internal controls and financial reporting processes). Such additional reporting must be within the auditors' expertise and professional knowledge and relate to disclosures prepared by management.

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

In order to provide additional assurance on certain additional information by the auditors, new standards have to be developed to provide auditors more guidance on the additional reporting.

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.

The main benefit would be a more robust, transparent and consistent approach to reporting that meets the needs of users. Changes should help address the information and expectation gaps currently seen in the financial reporting model. Although many of the changes proposed will use work that is currently undertaken as part of the audit, there will be an increase in cost both to preparers of the financial statements as a result of more time being spent in lengthy discussions with the auditor, and to auditors due to additional review requirements in ensuring the reporting is appropriate. Also, there is likely to be a need for further communication between the auditor and those charged with governance.

Increasing the responsibilities of those charged with governance may lead to a reduction in the number of suitably qualified and experienced candidates that are willing to undertake this role.

Where the remit of the auditor is expanded there will be additional training costs.

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 cost of implementing the above changes will be different for different types of entity. If auditors are required to express an opinion on the effectiveness of the entity's internal control system, the costs incurred will be significantly higher for listed and larger entities than SMEs.

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?

It is difficult to assess which options would be the most effective without more detailed assessment of the costs and benefits. However, we believe that changes to the structure and wording of the auditor's report combined with a more explicit description of the auditor's responsibility for other information in documents containing audited financial statements would enhance auditor reporting in the least disruptive manner. Conversely and as stated previously, we do not believe it is appropriate for the auditor to report information directly to users of financial statements that is not reported by management or those charged with governance first. The major challenge that needs to be addressed is to ensure that the proposed changes address the needs of users and are accepted by all stakeholders.

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 have no other suggestions.

We would be pleased to discuss our comments further with members of the IAASB or its staff. If you wish to do so, please contact Robert Dohrer (tel: +1 919 645 6819; email: robert.dohrer@mcgladrey.com).

Yours sincerely

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