



**The Institute of  
Chartered Accountants  
of Pakistan**

**HEAD OFFICE**

Technical Director  
International Auditing and Assurance Standards Board  
New York, USA

September 16, 2011

**Subject: COMMENTS ON CONSULTATION PAPER 'ENHANCING THE VALUE OF AUDITOR REPORTING: EXPLORING OPTIONS FOR CHANGE'**

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned Consultation paper.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Haroon Tabraze  
Director Technical Services  
The Institute of Chartered Accountants of Pakistan  
[haroon.tabraze@icap.org.pk](mailto:haroon.tabraze@icap.org.pk)

---

(Established under the Chartered Accountants Ordinance, 1961-X of 1961)

Chartered Accountants Avenue, Clifton, Karachi-75600 (Pakistan) Ph: (92-21) 111 000 422 Fax: 99251626  
Website: <http://www.icap.org.pk> E-mail: [info@icap.org.pk](mailto:info@icap.org.pk)

## COMMENTS ON THE CONSULTATION PAPER – ENHANCING THE VALUE OF AUDITOR REPORTING: EXPLORING OPTIONS FOR CHANGE

We have gone through the Consultation Paper “Enhancing the Value of Auditor Reporting: Exploring Options for Change” and appreciate the attention to and identification of the information gaps and a discussion on the prevailing and anticipated expectation gaps etc. We also support the process to usefully re-structure the auditor reporting to provide enhanced and in-depth insight to the users of the financial statements and stake-holders. The developments on this area would definitely contribute to more fully provide the required reliance on the financial statements that is the primary purpose of the audit.

However, while doing so there is a need to consider the wide range of jurisdictions, perceptions of different stakeholders, anticipated reactions and conclusions that may be drawn, and cost benefit analysis in economic as well as qualitative terms.

We strongly suggest that the auditor should not be expected to produce the information for the stakeholders and must not be considered as source of information about the entity. The changes should not be made in a manner which leads to incorrect perception about the primary function of the audit. Although there is a need of improving auditor reporting and it is imperative to consider various options, however, the unwarranted additional information e.g. a detailed commentary on key financial aspects may also lose the very purpose of increasing the communicative value. We understand that instead of placing such responsibility of producing information on auditor, the emphasis should be placed on enhanced disclosure needs in the financial statements. We believe that auditor cannot be a source of providing disclosures, financial analysis and future vision to the users of the financial statements. Care must be taken to avoid the creation of such expectation gaps. This is the responsibility of the management of the entity to provide the fullest disclosures and information required under a given financial reporting framework. Accordingly we urge the IAASB not to take such route and wherever in the consultation paper such options are discussed we do not support this.

We would also like to state that although all the options discussed in the consultation paper merits further consideration we are of the view that with so many options presented to such a wide number of stakeholders would actually confuse the respondents and loose the focus of the real objective. It would have been better had the IAASB presented based on its consideration and analysis fewer options. A second consultation paper probably may be something in our view the stakeholders would expect from IAASB in due course of time with emphasis on what can be done in the short time to respond to the market needs.

Regarding the Corporate Governance Reporting Model, we do not concur with the proposition that the auditor should provide the basis to the Audit committee to frame their report. Rather, auditor should be expected to give an opinion on what Audit Committee Report states. We suggest that such report should come from the Audit committee and auditor should give an opinion on such report as may be prescribed.

In our view, a combination of two options i.e. **“Change within the current entity reporting model and scope of the financial statement audit changes in the auditor reporting”** as well as **“corporate governance reporting model”**, with the alterations that respondents may suggest should be used. Doing this would enhance the communicative value of the standard audit report as well the governance responsibilities of those charged with governance.

The responses to specific queries raised for the respondents are given in the remainder part of this document.

**SPECIFIC COMMENTS**

<b>S. No.</b>	<b>QUERIES RAISED</b>	<b>ICAP COMMENTS</b>
1.	Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?	<p>Section II has identified the issues of significance for the informative needs of the users of financial statements who rely on the auditor reporting. For this purpose, they expect the auditor reporting to be informative and reliable.</p> <p>The consultation paper focuses that the currently used auditor report carries many technical terms and wordings which are generally ignored or not understood by the users of the financial statements due to which the expected information regarding the audit work, procedures performed and basis used to arrive at the conclusion/opinion may not fully be conveyed.</p> <p>While we fully endorse the thought process focused on improving the auditor reporting so that it should be more relevant, informative and understandable for the users, especially on the key issues identified by the auditor, we believe the desire for doing this is primarily for the larger businesses e.g. public interest entities or the listed companies. The small and medium size entities and the family owned entities in a wide range of jurisdictions may not be geared up for such changes because of their limited external information needs or due to economic reasons.</p> <p>Due to this, we believe that the changes to bring in the additional information through enhanced reporting should not be mandatory for the entities where a meager public interest is involved.</p> <p>It is expected that a careful consultation on the subject matter will result to find a way forward for improvement in the auditor reporting to bridge the information as well as expectation gaps.</p> <p>Some of the relevant issues that are present in all types of audits where possibility of expectation gap exists are in relation to auditors work and their conclusion on:</p> <ul style="list-style-type: none"> <li>• Going concern</li> <li>• Fraud</li> <li>• Related parties and related transactions</li> </ul> <p>In order to enhance the value of auditor's report some sort of expressive statement with proper risk</p>

		<p>evaluation on these matters in the auditor's report is considered important.</p> <p>Further, if revision is made, it should be concise, clear, comprehensive and relevant, and must be the part of audit report issued publicly in the published financial reports.</p>
2.	<p>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?</p>	<p>As stated above changes in auditor reporting are needed however these should not be beyond the basic principle of audit where auditor only enhance the degree of reliance on the information prepared and presented by management. In relation to information gap the best place to address this is financial reporting framework or a revised corporate reporting model.</p> <p>The express inclusion of above matters (going concern, fraud and related party transactions) in the auditor reporting would effectively cover the net effect of unfavorable situations arising which may otherwise be perceived as information gap. This will also provide an enhanced understanding of the work of auditor.</p> <p>We believe that where ever the entity is an owner managed entity the desire to have more information is limited.</p> <p>The issues of additional disclosures and information needs identified in paragraph 22 and 23 of section II have to be covered in the financial reporting with a greater emphasis, relevance and fairness. The auditor should definitely check such disclosures, judgments, estimates and uncertainties attached thereto and the changes in accounting policies, their appropriateness and application etc and report the findings if unusual or misleading information is identified.</p>
3.	<p>Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?</p>	<p>As stated earlier, we believe that the changes may not be needed in the entities where larger public interest is not vested. Public interest can be witnessed with respect to shareholdings pattern, debt structure, investments, taxation obligations, and the fiduciary relationships, if any.</p> <p>In our view, these changes should be mandatory for the listed entities or such public interest entities as have been indicated in foregoing paragraph.</p> <p>However, for other entities, such changes may also be encouraged since we understand that additional reporting would definitely enhance the communicative value of auditor reporting in all cases.</p>

		We also believe that Public Interest Entity may entail different perspective in different jurisdictions, therefore, for this purpose, defining that which entities are the public interest entities should also be left as a matter of judgment and decision by those who regulate the audit profession in each of the jurisdictions.
	<b>Exploring Options for Change</b>	
	<b>A. Format and Structure of the Standard Auditor's Report</b>	
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?	<p>In our view, the responsibility paragraphs should not be removed from the report for relocation to some other document or online source.</p> <p>In so many jurisdictions, the responsibilities of auditor and management are already explicitly defined through statutory laws or by legally notifying the ISAs. Still, the expectation gaps exist. We believe that there is always a need to keep the public focus right by including these responsibilities paragraphs in the report. For the users of the financial statements, the removal of responsibilities paragraphs from readily available auditor report, and relocation to some other source or document may result into further widening of expectation as well as information gaps.</p> <p>However, these paragraphs can be reasonably expanded to make the contents further clearer. Such expansion should be comprehensive, concise and expressive so that its length does not undermine the importance of the opinion part of the report.</p> <p>As far as opinion paragraph is concerned, we understand that relocation of the opinion paragraph after the introductory paragraph shown in Appendix 1 of the consultation paper would enhance the relevance and communicative value of the auditor reporting. We, therefore, agree with this option.</p>
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?	<p>The repositioning of responsibilities paragraphs, in our view, would not result in widening of expectation gap, therefore, there does not appear any issue with the re-positioning.</p> <p>As far as 'technical wordings' is concerned, it may be explained by reasonably expanding the paragraphs but without losing the relevance and purpose of these paragraphs. It would be more appropriate if expanding paragraphs on management and auditor's responsibilities are presented in the form of bullets.</p> <p>As stated in our response to question 4, we do not endorse the removal of responsibilities paragraphs</p>

		from the auditor report for the reasons already mentioned.
	<b>B. Other Information in Documents Containing Audited Financial Statements</b>	
6.	<p>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?</p>	<p>In Pakistan the auditor reporting (review report) is also required on the statement of compliance with best practices of the Code of Corporate Governance. Similarly, at some other jurisdictions such reporting also is required in Directors' Reports etc.</p> <p>Therefore, for standardization of practices, we support that the standard auditor's report should include a statement about the auditor's responsibilities regarding other information in the documents containing audited financial statements as this will reduce the expectation gap.</p> <p>We also suggest that opinion paragraphs should also be reframed to include an opinion about the truthfulness and fairness of other information produced in the documents containing audited financial statements.</p>
7.	<p>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?</p>	<p>We are of the view that the auditor report should include a statement of auditor's responsibilities for other information as well as an explicit statement about what auditor has to report with respect to such other information e.g. either it is fairly stated in accordance with the audited financial statements or not; and in case of departures, the nature and extent of the departures from audited financial statements that can carry a misleading impact.</p>
	<b>C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit</b>	
8.	<p>Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.</p>	<p>We do not support to provide additional information or commentary in the audit report since this is not the role of auditor. Audit is aimed at to provide assurance on the information and not the information itself.</p> <p>Guidance is already available in ISAs regarding what should be additionally reported as 'Emphasis of Matter' or 'Other Matter'. There may be a need to provide further elaborations on these two aspects, so that these could be used as a tool to provide additional information, if required. However, to provide the additional information through these means should not be mandated for the auditor reporting. It should be consequential to the audit findings and be left on the professional judgment of the auditor. The</p>

		<p>auditor should decide what is needed to be provided as additional information (as Emphasis or Other matter) in order to enable the users to place reliance on the financial statements.</p> <p>It is also important to note that the auditor can comment or emphasize only on those disclosures and information that the management has formally provided to him and/or disclosed in the financial statements or other information.</p> <p>We do not endorse the idea of providing additional information on key area of risk of material misstatements, critical accounting estimates and uncertainties, areas of significant auditor judgment, the level of materiality applied, internal controls, and the areas of significant difficulty encountered during the audit etc. In our view, doing so will create misconceptions regarding the core purpose of the audit and the reasonableness of the audit conducted.</p>
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.	We do not endorse this suggestion on the basis of our feedback on question No. 8 above.
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.	<p>As noted earlier, the auditor can comment (if required) only on those disclosures and information that the management has formally provided to him and/or disclosed in the financial statements or other information. Therefore, auditor should not be expected to provide such insights.</p> <p>In our view, providing insights and perception is the responsibility of management and should continue as such. However, the auditor may be required to report on such insights, analysis and perceptions contained in the Other Information as discussed earlier.</p> <p>Accordingly, we do not support the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the audit report.</p>
	<b>D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit</b>	
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 agree with the option to have enhanced model of corporate governance reporting. However, the responsibility of the auditor should only be to provide his opinion on the report of Audit Committee (i.e. those charged with Governance).

		<p>While we believe that there should be regular communications and dialogue between those charged with governance and the auditors, we, however, do not agree with the option that the auditor should provide the basis to the Audit committee to frame their report. Rather, auditor should be expected to give an opinion on what Audit Committee Report states. If auditor is supposed to provide basis to the Audit Committee to frame their report, then there would be no objectivity of such reporting as well as the opinion thereon for the users.</p> <p>We suggest that such report should come from the Audit committee's own judgment and perspective, based upon their governance role, the feedback obtained from management through their continuous overseeing function and the feedback obtained from the auditor during various communications and meetings.</p>
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?	<p>This would require changes in the local laws in each territory which may not be very easily accepted and implemented.</p> <p>Respective Regulators in each territory needs to be engaged which may be through the International Organisation for Securities Commission. However it should be noted that such an initiative will be successful if the focus is only on listed entities and entities with fiduciary relationship.</p>
13.	Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?	<p>Yes, provided the entities are required to and are geared up to constitute effective audit committees instead of considering it to be an additional burden and merely a reporting formality.</p> <p>Further, there would be no objectivity of the opinion of the auditor, if it has to provide basis of such reporting to the Audit Committee. (Please see our comments against question 11 above).</p>
	<b>E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit</b>	
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.	Although this would be more dependent upon the local laws of each jurisdiction, yet we agree with the contents of section III, Part E specially reporting on Internal controls and financial reporting processes.
15.	What actions are necessary to influence further development of such assurance or related services?	As stated earlier, it would be dependent upon the local laws of a jurisdiction that what reporting requirements are mandated and which yardstick has



		<p>to be used for auditor reporting. In Pakistan, there has been mandated auditor reporting on the Internal Controls of the banking companies, and the banking companies have followed the COSO framework as a yardstick of the recognized internal control framework for such auditor reporting. However, such reporting may not have a vital importance for all the entities.</p> <p>We believe that such framework like COSO requires formal acknowledgement from IAASB. Further, there is also a support from territory regulators otherwise the initiative would not be successful.</p>
	<b>Implications of Change and Potential Implementation Challenges</b>	
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.	Undoubtedly the proposed changes will increase the costs, though the benefits would also be enormous. However, at this stage we cannot estimate both since many aspects of the proposed changes are unexplored so far.
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.	<p>In our view the benefits, costs and potential challenges for all entities cannot be same in any case.</p> <p>We already suggested that the changes should be mandated only for listed entities or the entities with larger public interest. We believe that the benefits of such changes would be greater for such entities in comparison to small or medium entities and private companies etc.</p>
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?	<p>We understand that a combination of two options i.e. "Change within the current entity reporting model and scope of the financial statement audit changes in the auditor reporting" as well as "corporate governance reporting model", with the alterations that respondents may suggest should be used. Doing this would enhance the communicative value of the standard audit report as well the governance responsibilities of those charged with governance.</p> <p>However, there would be a need that each jurisdiction takes necessary steps to ensure that the function of Audit committees is strengthened and made effective. We understand that this can be done primarily in the listed entities and the entities where larger public interest lies.</p> <p>IAASB should provide further guidance material regarding auditors responsibilities and reporting requirement on assurance and related services on the type of information discussed in section III, part E. It should also pursue the member bodies for follow-up of effective implementation of corporate</p>

		governance reporting model, if it is concluded to be adopted in whatever modified form.
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?	It is suggested that changing the layout or contents of the audit report and/or extending the reporting requirements should be considered in total instead of through a piecemeal process. We also recommend that IAASB should carry out a study of the expected costs and benefits of the proposed changes for the guidance of the stakeholders.