

September 8, 2012

**To: Mr. James Gunn**  
**Technical Director, IAASB**  
**The International Federation of Accountants**

**Re: IAASB Invitation to comment – Improving the Auditor’s Report**

Dear Mr. Gunn,

We are pleased to have the opportunity to congratulate the IAASB for the recent suggested improvements on auditor’s report, which reveal a strong commitment towards narrowing the audit expectations gap, particularly the standards-gap.

Apart from our specific answers provided to the IAASB questionnaire presented attached, we would like to underline several issues that we believe are key improvements to audit reporting.

Overall, the new structure and more detailed content respond proactively to long-lasting critics about the value and intelligibility of audit reports. While providing significant additional information, the report remains relatively short and focused on the main issues of stakeholders’ interest. Keeping a good balance between the auditor’s efforts to align with the new requirements and the benefits of better audit reports is particularly of a high merit.

In our view, the following improvements are of a great value:

- Placing the opinion paragraph at the beginning of the report so that anyone could immediately spot the key auditor’s message;
- Explaining the meaning of *reasonable assurance* by underlying the fact that *it is not a guarantee* tells the users to adjust their unreasonable expectations as far as the audit opinion and audit report are concerned;
- Introducing a separated section for auditor’s considerations related to going concern clarifies the auditors’ and clients’ distinct responsibilities. In addition, on the grounds of no prior reporting practices, it appears to provide much better arguments against those who suspected auditors either of overlooking the going concern or in collusion with the clients’ interests;
- Introducing the *Auditor Commentary* section provides the users with details about the auditor’s significant findings supporting his opinion;

- Inserting the name of the auditing partner facilitates greater accountability and monitoring the auditor's rotation where applicable.

However, there remains some room for improvement mostly regarding the paragraph related to *Other Auditors Involvement*. We believe that providing details about the activities performed by other auditors might lead to disclosing information that is confidential and used by auditors during negotiations with their clients. In our view, even though a higher reporting value to users is sought, such information should be approached with discretion to not jeopardize the profession's interests and reputation.

Sincerely,

**Laurențiu Dobroțeanu, Prof. PhD**  
Coordinating Executive Director,  
The Public Interest Oversight Board of Accounting Profession



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### 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?**

*Answer: We strongly support the IAASB’s suggested changes as they significantly enhance the intelligibility of auditors’ message and work provided by the audit report. Overall, the changes are consistent with the findings of a considerable research work on audit expectations gap conducted previously by Brenda Porter et al, Ana Gold et al, Stephen Asare, and Arnold Wright. In our view, there shouldn’t be significant extra costs implied by the adoption of the improved audit reporting as it provides only a greater transparency on auditors’ work. It does not seem to involve additional audit responsibilities as compared to the work currently performed by auditors under the ISAs.*

- 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.**

*Answer: In our view, through the suggested improvements, the IAASB has found a good balance between: (i) what users expect and what auditors report, (ii) the short and long form of audit report, and (iii) extended disclosure and auditors’ efforts to implement it.*

*As we understand, the IAASB seeks to narrow the users’ expectations gap. However, these changes would impact on standard-gap only. Consideration should also be given to performance gap as the auditor’s adequate compliance with ISAs is a key component of the audit expectation gap. Therefore, we believe that the adoption of a common set of procedures on supervision/oversight and monitoring the profession’s compliance with IFAC requirements (SMOs) would be extremely helpful.*

### 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? (See paragraphs 35–64.)**

*Answer: Yes, we do. “Auditor Commentary” renders auditor’s report with greater transparency.*

- 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? (See paragraphs 43–50.)**

*Answer: It should be fairly predictable that this section of the audit report will be most diverse across time and space as people, business, culture, and many other influencing factors vary. Under such circumstances, we believe that adopting a uniform reporting format would prevent auditors to give appropriate consideration to “substance over form”. Therefore, we rather favor the auditor’s freedom of judgment in this regard. However, general principles or guidelines to support the auditors decision-making process should be considered to prevent non-significant details overflow or superficial audit reports be issued.*

**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? (See paragraphs 58–61.)**

*Answer: Overall, the examples provided are fairly reasonable and seem to respond to users’ realistic expectations. Nevertheless, as presented in our answer to question 13, we believe that certain details should be taken out from the “Audit Commentary”.*

*As regards the audit procedures, the value of such information is limited and might be misleading unless the related results are reported as well. However, one should not expect that providing such information would significantly improve the users’ understanding of audit reports due to their limited technical knowledge in auditing area.*

**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 (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)**

*Answer: We believe that greater transparency would trigger better compliance as it implies disclosure of what auditors, management, and TCWG actually do. On long run, as the market accommodates with the new reporting rules (e.g. the Audit Commentary section becomes standardized), a slight reversal would be natural.*

*The quality control processes on Auditor Commentary shouldn’t be an issue of concern since it relates only to disclosure of those audit procedures which are currently used under audit engagements. Therefore, the associated costs should be minimal.*

*As long as auditors refrain from providing original information about the client under the Auditor Commentary, both issues (confidentiality and competing with management disclosure) could easily be avoided.*

**7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), 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? (See paragraphs 51–56.)**



*Answer: Yes, because PIEs capture the interest of a wide range of stakeholders. Moreover, if the enhanced audit reporting proves to be successful over time it could be subsequently extended to other audits as well.*

### **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? (See paragraphs 24–34.)**

*Answer: To us, the inclusion of auditor's statements related to going concern is one of the most valuable improvements of audit reporting. It clarifies to interested users the going concern concept, its use, and most significantly, it tells that auditors have not overlooked the issue during their audit engagement.*

- 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? (See paragraphs 30–31.)**

*Answer: Including the auditor's judgments surrounding the going concern might lead to disclosure of original information about the client. This is dangerous as it could easily threaten the auditors' confidentiality. Therefore, we rather favor the non-inclusion of such information in audit reports.*

- 10. What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)**

*Answer: Providing auditor statements related to other information is currently in place under several national legislations, including Romania. As long as the phrasing is properly made (e.g. as in the illustrative report) misleading messages are avoided.*

### **Clarifications and Transparency**

- 11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, 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? (See paragraphs 81–86.)**

*Answer: Enhanced descriptions of responsibilities provide the users with a straightforward distinction between the auditor's work and accountability and those of the client's governance structures. To us, the illustrative report states fairly well this.*

- 12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)**

*Answer: In our view, providing such information is particularly useful to professional and oversight bodies to monitor the compulsory rotation of auditors.*

**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? (See paragraphs 77–80.)**

*Answer: As long as the group auditor is solely responsible for the audit report on the group financial statements, providing information about other auditors seems to be of a limited value and implies legal impediments. In addition, we are aware that certain information on audit engagements has to remain confidential, as they allow auditors to freely compete on the market. Therefore, in our view, including details about the number of audit hours would seriously harm the auditor's abilities to compete.*

**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? (See paragraphs 83–84.)**

*Answer: Perhaps relocation on the profession's website is more favorable as it allows the audit report to remain focused on the auditor's message. A reference for the relevant link might be included in the audit report.*

**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? (See paragraphs 17–20.)**

*Answer: In our view, this is another key improvement of the audit report as one could immediately spot the auditor's opinion followed by the supporting commentary.*

**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? (See paragraphs 21–23 and 87–90.)**

*Answer: Audit like businesses is global. Therefore, there should be a global view on the audit work and report. However, looking for consistency of audit reports should be flexible enough to not impede auditor's judgments in providing relevant audit commentary or accommodation of national legal requirements.*

**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? (See paragraph 17 and Appendix 4.)**

*Answer: We do not see any inconvenience if the IAASB mandates the ordering of items as provided by the illustrative report. To us, the proposal appears to be sufficiently flexible to accommodate national legal requirements.*

**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? (See paragraphs 91–95.)**

*Answer: As long as the same ISAs apply to all, we believe that the suggested improvements should be applied to audits of all entities, regardless their size, ownership, sector, etc. Thus, while the audit report format is the same for all audited companies, the content of auditor’s commentary may vary according to the auditors’ judgment.*