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Professor Arnold Schilder
Chairman
International Auditing & Assurance Standards Board
529 Fifth Avenue 6th Floor
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Dear Professor Schilder

Comment Letter *Improving the Audit Report*

Crowe Horwath International is delighted to present a comment letter on *Improving the Audit Report*. Crowe Horwath International is a leading global network of audit and accounting firms, with members in some 110 countries.

We welcome the approach taken by the IAASB to develop a new model for audit reporting. The IAASB have proposed a solution that seeks to improve communication and transparency about the audit process. It is important that the IAASB continue their “building blocks” approach and define in their exposure draft the requirements for audit reporting on Public Interest Entities and on other entities. The audit report is presented to users of financial information as part of a larger package prepared by management and Those Charged With Governance. The audit report needs to be read in the context of the full package of information, and clear cross-references from the audit report will assist understanding.

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?

The IAASB’s suggested improvements are an appropriate step towards improving and modernising the presentation and content of the audit report, and addressing stakeholders’ concerns about the audit report.

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.

The IAASB should not consider auditor reporting in isolation. Management and those charged with governance have obligations in respect of the preparation of financial statements and other reports, making accounting judgements, setting estimates and overseeing the audit process. We encourage the IAASB to work and co-operate with the IASB, the International Integrated Reporting Committee and regulators to continue to improve reporting by management and those charged by governance, and ensure that such improvements are made in conjunction with developments in audit reporting. The audit report will be enhanced by relevant cross-reference to reports prepared by management and those charged with governance.

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?

The concept of the Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report.

It is important that the Auditor Commentary is read in conjunction with reports presented by management and those charged with governance, and particularly the report of the audit committee. The IAASB should take account of developments in reporting by audit committees that will result from the current legislative processes in the European Union, and initiatives in other jurisdictions. There will be considerable benefit for stakeholders if the reports presented do not repeat the same information, focus on comments that arise from the reporting party's responsibilities, and collectively can be seen as an integrated solution to reporting.

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?

We agree that the matters addressed in the Auditor Commentary should be left to the auditor's judgment. All reporting entities companies are different, and the Auditor Commentary needs to reflect the circumstances of the reporting entity. The presentation of the Auditor Commentary must avoid bland and standardised narrative so that it is individual in content and tone.

The development of guidance to assist auditors with the preparation of the Auditor Commentary is important. The guidance will need to encourage an individual approach to the Commentary, and therefore specific criteria should not be given.

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?

The illustrative examples of Auditor Commentary report contain some information that is useful to readers. The most informative examples refer to audit procedures and the audit process. However, the illustrative examples for Outstanding Litigation and Goodwill add little to

information presented in the notes to the financial statements because they do not address the procedures applied by the auditor to these matters, and they do not state how the auditor formed a conclusion.

For the Auditor Commentary to add value, and not just repeat information disclosed elsewhere, it is important that it describes the procedures applied by the auditor, and how the auditor concluded on the matter.

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?

The presentation of the Auditor Commentary will have time and cost implications. There will be need for discussion with both Management and those charged with governance (TCWG). This will need to be reflected in the reporting timetable. Additional time will be required by the senior members of the engagement team to prepare the Commentary, and to present and discuss it with management and TWCG. Additional quality control procedures will be needed because of the nature and sensitivity of the Commentary.

There is no reason why reporting by the entity should be delayed by the preparation of the Auditor Commentary, but the process of preparing the Commentary is likely to require changes to existing timetables adopted by both the reporting entity and the auditor. In the absence of a proposed standard, it is difficult to comment further about the time implications and to make estimates of the potential increase in audit costs. The IAASB needs to engage in consultation, whilst developing the standard, with reporting entities, members of audit committees and auditors to better assess the time and cost implications.

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?

We agree that the Auditor Commentary should be required for public interest entities (PIEs). The standard needs to be clear as to the definition of PIE. Paragraph 53 takes a sensible approach, and the definition of PIE should follow the application of the IESBA Code of Ethics by the individual jurisdiction.

The IAASB have spoken extensively about taking a "building blocks" approach to the presentation of the audit report. We believe that the Auditor Commentary should be a "building block" for a PIE audit report, but not a "building block" for the audit reports of non-PIEs. Including a Commentary in the report of a non-PIE risks making the audit report longer than it need be, and potentially adds cost and time to the reporting process where there are fewer stakeholders. Introducing a voluntary Commentary for non-PIEs is potentially confusing.

It is important that the IAASB focuses its resources at this time on completing an Auditor Commentary for inclusion in the audit reports of PIEs, and avoids debating as to whether auditors of non-PIEs should be encouraged to give Commentaries. This is an unnecessary distraction in the standard setting process.

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?

The proposed statements on going concern explicitly express existing requirements of auditing standards and allude to the disclosure in the notes to the financial statements about management's use of the going concern concept. As statements of fact the proposed wording is acceptable, but the benefit to be derived from additional standard words has to be questioned. These additional words are unlikely to reduce the expectations gap arising from stakeholder concerns over the reporting of going concern. In our reading the overall proposal on going concern is "low value, low impediment" in the words of the ITC.

The disclosure by management and TCWG, particularly the audit committee, on going concern has to be further improved. The IAASB is encouraged to assist the IASB, the European Commission and other agencies with the development of disclosures by the reporting entity on going concern. If it is deemed that the audit report should comment on going concern, then a factual comment on the responsibilities of the auditor and the procedures applied can be given, together with cross references to the disclosures made by management and TCWG.

Reporting on going concern in this way should be restricted to the audit reports of PIEs.

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?

The ITC discusses the balance of value versus impediment. There are potentially high impediments in disclosing additional information about auditor's judgments and processes in the audit report. The information given may have price and other sensitivities. As we discuss in 8 above, factual disclosure of responsibilities and procedures with cross reference to enhanced disclosure by management and TCWG can add value without adding additional impediments to the process of reporting by the auditor.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

The suggested statement in relation to other information makes more transparent the existing responsibility of the auditor. The statement is largely one of fact and is supported by the respondents to the May 2011 consultation. We see no impediments in presenting a statement on "other information".

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?

To avoid the audit report becoming too long and thereby undermining the value of individual statements such as the Audit Commentary and any modification made by the auditor, we recommend that the IAASB adopts current United Kingdom practice, and permit a cross reference to be given to the location of this information.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

As the ITC notes, the name of the audit engagement partner is already disclosed in many jurisdictions. We see no particular impediment in disclosing the name of the engagement partner, but the final decision on disclosure should be made by individual jurisdictions to reflect the requirements of national law, and national practice, particularly considerations regarding liability.

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?

The IAASB has established a principle of "sole responsibility" and should maintain the prohibition in ISA 600 on reference to another auditor in the report, unless this is a requirement of national law or regulation. The group auditor has to apply ISA 600 and form a group opinion, and a responsibility statement has been prepared by the IAASB.

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?

Standardised material should be located in an appropriate website. This reduces the overall length and content of the audit report, and enables the reader to focus on commentaries and modifications that are individual to the 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?

We agree that that the auditor's opinion and the Auditor Commentary should be given the greatest prominence. We have commented above that content of a standardised nature ought to be located in websites and not contained in the report in full, so as not to distract from the individual components.

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?

Global consistency in reporting is desirable because this aids comparability. Significant consistency in financial reporting has been achieved through the adoption of IFRS and significant consistency in audit practice has been achieved through ISAs and the adoption of common audit methodologies by networks of audit firms. The reduction of national differences in reporting has to be encouraged, and will follow the convergence that has followed in the

adoption and implementation of standards. In practice, national differences in reporting due to law and regulation will continue and therefore Appendix 4 has to be encouraged as guidance on the application of the proposed form of reporting.

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?

To encourage consistency, wherever possible it would be helpful for audit reports to be ordered in a similar manner unless prohibited by local law or regulation.

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?

The audit reports of all entities should follow the same underlying principles and we therefore welcome the IAASB's approach to the "building blocks" principle. In particular, the presentation of the opinion at the beginning of the report is essential for all entities. As we state in our response to questions 7 and 8 above, features of the report such as the Auditor Commentary and going concern reporting ought to be restricted to the audit reports of PIEs.

We trust that our comments assist the IAASB in their project to develop a new standard on audit report. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty".

David Chitty
International Accounting and Audit Director