

8 October 2012

Professor Arnold Schilder
Chairman
International Auditing & Assurance Standards Board
529 Fifth Avenue (6th floor)
New York New York
USA

Dear Professor Schilder

Improving the Auditor's Report

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness.

The G100 supports activities directed at enhancing the understanding of the audit process, the meaning of the audit opinion and addressing the expectations gap on the part of shareholders and other stakeholders. However, we do not believe that the proposals relating to auditor commentary are an appropriate way to address these issues.

1. *Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and information value of the auditor's report, in view of the possible impediments (including costs)? Why or why not?*

While the proposals include some proposals which will increase the transparency of the audit process the G100 strongly believes that the proposals relating to Audit Commentary are so serious as to detract from the overall package because:

- **it blurs the distinction between the role and responsibilities of directors and management and those of the auditor in respect of the financial statements and notes thereto;**
- **directors and management are primarily responsible for disclosing entity-specific information to shareholders and other users;**
- **it has the potential to increase the costs of audit and to create tensions between the auditor and directors and management which do not necessarily serve the interests of shareholders and other users.**

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 co-ordination with others? Please explain your answer.*

Yes. The G100 suggests that the auditor's report should also be a vehicle for the auditor to set out what has been done to reduce what is referred to as the expectations gap. For example, as indicated in para 36 the auditor's report could state clearly how the audit was conducted, key judgements made in planning the audit including materiality, use/reliance on experts and involvement in other audits in addition to the respective roles and responsibilities of the auditor and directors and management.

While the proposed changes are likely to provide some improvement, any significant improvements are unlikely to be achieved without the support and co-operation of a range of other participants including regulators, standard setters and professional bodies, in order to achieve consistency in the ways they are addressing issues and concerns.

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?*

No. The G100 strongly disagrees with the concept of providing Auditor Commentary and believes that the proposal is misguided as it seeks to extend the role of audit and encroaches on the responsibilities of directors and management. There is a clear distinction between the responsibilities of directors and management and the auditor and this should be retained. We are concerned about the following aspects:

- How does the auditor determine the matters most likely to be most important to users? This approach invites auditors to speculate on these matters.
- How does the auditor obtain the skills and qualities to serve users in this way and to be able to make informed commentary?
- How is the commercial sensitivity of the company's activities dealt with where there is tension between judgements made by directors and management and the auditor's perception of what a user needs?
- How would adoption of the proposals affect the liability regimes applying to directors and auditors?
- The potential for the content and views expressed in the Auditor Commentary to detract from the traditional aspects of the auditor's report and that provided by directors.
- The ways in which the Auditor Commentary process is determined and managed including the impact on the costs of the audit, the resolution of differences with directors and management and the extent of directors' commentary on that of the auditor.
- How the existence of Auditor Commentary impacts on the expectations gap and the extent to which it results in creating more and different expectations of the audit process with the increased reliance on the Auditor Commentary.
- The extent to which the Auditor Commentary deals with matters that are not included in the scope of the audit opinion.

The G100 believes that the practice under which the auditor attends the AGM and responds to questions from shareholders is a better way to deal with these issues. This process depends on questions being initiated by shareholders on matters which are of concern or interest to them.

We are also concerned about the impact of the proposals on the costs of the audit and on the timing of the financial statement process given the present extremely tight timelines.

Our comments on other issues are:

- **the G100 has no objections to disclosing the name of the audit engagement partner (Question 12)**
- **the G100 believes that the auditor's report should contain information which states clearly the respective responsibilities of the auditor and directors and management (Question 11)**
- **the involvement of other auditors should be disclosed where their services have been used for a material component of the audit (Question 13)**
- **the format and presentation of the auditor's report should be flexible so that it can be adapted to the particular circumstances of the audit as a means of avoiding the use of standardised language for the whole auditor's report. The inclusion in standards of illustrations and guidance in complying with the requirements tends to be viewed by auditors and regulators as to how entities should be addressing issues. As such, while they may be helpful initially there is a tendency for them to limit experimentation in the presentation and content of reports (Questions 15-18).**
- **While the G100 has no significant objections to the proposals regarding the going concern assumption and the existence of material uncertainties provided that it does not include entity-specific information not already provided by directors we believe that issues relating to the going concern concept need to be addressed by auditing, accounting standard-setters and regulators to resolve any inconsistencies in approach. (Questions 8 – 9)**

Yours sincerely
Group of 100 Inc



Terry Bowen
President