



For the attention of Prof Arnold Schilder  
Chairman  
International Auditing and Assurance Standards Board (IAASB)  
529 Fifth Avenue, 6th Floor  
New York, New York, 10017  
USA

[Submitted via IAASB website]

11 October 2012

Dear Prof Schilder

### **IAASB Invitation to Comment: Improving the Auditor's Report**

We<sup>1</sup> welcome the opportunity to comment on this consultation on the IAASB's proposals to make the auditor's report more informative and relevant to users. The responses to the IAASB's 2011 consultation showed the need to revisit the current auditor reporting model. We support this aim and applaud the IAASB for making changes to the auditor's report its top priority and consulting early in the standard-setting process on the direction for the future auditor's report. There are, however, many aspects of reporting that will need to be considered as stakeholders' needs and the broader corporate reporting framework evolve, including more frequent reporting and reporting on other aspects of entities' performance. We want to be part of that dialogue.

Making changes as significant as those being proposed is challenging and requires all of us to engage, to listen to alternative perspectives, and to have the courage and confidence to be bold. At the same time, it would be naive to believe that changes of the nature being proposed will not have consequences. In determining the way forward, we must all be cognisant of the possible implications when weighing the proposed changes – both direct and indirect, intended and unintended. While this consultation may seem to be only debating the words that might go into the auditor's report, words drive behaviours. And it is the impact on behaviours that ultimately matters most. We also need to reflect on how the proposed changes fit into and support broader corporate reporting reform, because the ultimate aim is having the public trust in the corporate reporting information system necessary to support healthy, successful and growing

---

<sup>1</sup> This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

<sup>2</sup> See *Assurance Today and Tomorrow*, a global survey of 104 investors in 14 capital markets at <http://www.pwc.com/gx/en/audit-services/publications/investors-views-survey.jhtml>

---

*PricewaterhouseCoopers International Limited*  
1 Embankment Place  
London WC2N 6RH  
T: 011 [44] (20) 7583 5000, F: 011 [44] (20) 7822 4652



economies. While the positions expressed in this letter reflect our current views on the proposals following vigorous debate within our own network, we look forward to hearing the views of other stakeholders in this important process of designing an auditor reporting model that will meet the needs of society in the future.

### Overview of our key messages

We continue to believe the time is right to enhance auditor reporting. In designing the auditor report's for the future, we believe:

- The overriding aim should be effective communication—making the auditor's report more informative by adding insight through emphasis, and clarification without excessive detail and jargon.
- The reporting model should be enhanced by:
  - Highlighting significant financial reporting judgements made by management in preparing the entity's financial statements that, in the auditor's judgement, users should consider as part of their understanding of the financial statements taken as a whole, including disclosures relevant to management's assessment of going concern.
  - Making explicit the auditor's responsibilities for reading the other information in the annual report (or equivalent) and whether the auditor is aware of any unresolved material inconsistencies with the audited financial statements.
  - Better explaining the respective responsibilities of auditors, management and those charged with governance, while at the same time making it easier to find audit- and entity-specific information by restructuring the report.
- The IAASB should continue to give this project its top priority, progressing it through to completion as quickly as practicable, whilst being cognizant that the ultimate goal is broader reform of the corporate reporting model.

### Positioning the proposed change in broader context

We recognise that the IAASB faces particular challenges in trying to design a common global auditor reporting model for the future because the starting points differ around the world. Jurisdictions have different legal and regulatory structures and are at different stages in the development of their capital markets, corporate reporting and corporate governance regimes. Solutions that are workable in one context may not always transfer well. For that reason, appetites for change, the preferred solutions, and even perceived impediments to making certain changes, are likely to differ. In developing our positions in this response, we did so in the context of the following underlying assumptions:

- **A robust and well-established corporate governance environment exists.** It is clear that even in well-established capital markets there is both a need and opportunity to further develop the role of audit committees. A recent survey we conducted of 104 investment professionals in 11 major capital markets<sup>2</sup>, showed that many do not fully understand what audit

---

<sup>2</sup> See *Assurance Today and Tomorrow*, a global survey of 104 investors in 14 capital markets at <http://www.pwc.com/gx/en/audit-services/publications/investors-views-survey.jhtml>



committees do and how they do it. Yet, the audit committee’s knowledge and insight into the audit and its oversight of companies’ financial reporting and internal control systems should be underpinning investor confidence—representing the interests of investors and serving as an effective interface between investors and auditors. For these reasons, we strongly support the initiatives underway in the US, UK, European Union and globally to explore how transparency about the audit committee and its oversight of the audit can be enhanced.

- **Application of IFRS in the preparation of the financial statements.** This is particularly true with respect to going concern as, even though there is room for improvement in the disclosure requirements regarding going concern under IFRS, financial reporting aspects of going concern are not even addressed explicitly in some other financial reporting framework. In addition, in our view, some of the insights that investors and other stakeholders are seeking would be best met through complementary changes in both the auditor’s report and entities’ own corporate reporting. For example, we argue that the preferred solutions regarding going concern are contingent on changes being made in the corporate reporting system at the same time.
- **There are appropriate legal framework protections,** such as safe harbour provisions or other liability protections, for participants in the corporate reporting system. There is a risk even mentioning legal liability will be perceived to be self-serving. However, it would be naive for anyone to ignore the reality is that some of the proposals will be very difficult to implement as intended in some jurisdictions because of the lack of appropriate legal framework protections, particularly when auditors are being asked to provide transparency into only a snapshot of the judgements made in the financial reporting process and audit. The proposals may serve to shift the very foundations on which legal precedents have been based and concerns about the repercussions are not unmerited.

Clearly, the IAASB cannot address on its own all of these matters, as many are well beyond its remit. It is, however, important that the IAASB and other standard setters and regulators do not lose sight of the importance of the need for solutions that work together holistically to meet the needs of market-based systems and society as a whole in the future. The IAASB’s Invitation to Comment is an important contribution to determining the reforms necessary. The IAASB can, and should, play a leading role in promoting the necessary dialogue and collaboration needed to ensure that solutions it is considering are not designed in isolation, as that risks those solutions being suboptimal to the capital market system as a whole.

### **Our overarching principles for effective auditor reporting**

In developing our vision for auditor reporting in response to the IAASB’s and PCAOB’s 2011 auditor reporting consultations, we evaluated various options against the principles summarised below. We found that these principles were useful guideposts to identifying constructive changes and avoiding changes that inadvertently do harm. We continue to believe they are relevant and they have informed our thinking in developing our views on the various proposals in the Invitation to Comment. Further explanation of these principles can be found in Annexe 1 of our appendix to this letter.

1. Changes made to auditor reporting should:
  - o maintain or improve audit quality;



- enhance the value of audit to users; and
- increase the reliability of information the entity provides in public reports.
- 2. Changes should maintain or enhance the effectiveness of the relationships and interactions of auditors, those charged with governance (e.g., audit committees) and management in the financial reporting process.
- 3. Auditor reporting should be sufficiently similar to facilitate users' comparison of the underlying economic reality / state of affairs of different entities.
- 4. Auditor reporting can provide greater insight based on the audit but the auditor should not be the original source of factual data or information about the entity.
- 5. In the short term, the adoption of different approaches that achieve the objectives of additional reporting may be necessary.

### **Changes that will make the auditor's report more informative and relevant**

As a network, over the last year, we have had a chance to:

- Engage in further dialogue with the investor community to better understand what they value in auditor reporting and where and how they believe it could be improved.
- Explore wording used in the auditor's report and consult with communication experts to better inform our understanding of changes that are likely to be effective and those that are not.

Of particular significance to us as auditors is that the debate on auditor reporting, while challenging us to examine how the auditor's report can continue to meet evolving capital market needs, has also reaffirmed the fundamental importance of audit to capital markets. Our own dialogue with investment professionals found that they derive a high level of value from the fact that an audit has been undertaken. Most, however, had an appetite for the auditor's report to provide more insight. At the same time, they recognised both practical difficulties and the risk of negative or unintended consequences. Like us, they understand the tensions in making valuable enhancements to today's auditor's report without inadvertently doing harm.

In our view, the following changes would be responsive to what investors and other users have told us they would value in the auditor's report. They are largely consistent with the proposals in the IAASB's Invitation to Comment, but some are refined. We are keen to be closely involved as specific wording is developed to implement the proposals in the auditing standards, as often that wording brings other considerations to light.

- Auditor commentary
  - We support the introduction of a new section within the auditor's report for listed/public companies that would provide insight by highlighting the significant financial reporting judgements made by management in the preparation of the entity's financial statements.
  - In our view, however, the IAASB's proposed objective and criteria for *auditor commentary*, described within the ITC, are too broad. This could result in inconsistency in the matters included in auditor's reports in similar circumstances and information being included that we believe could harm capital markets rather than appropriately inform users. As described below,



however, we believe that the auditor's report can be enhanced to provide information that would be valuable to users.

- It is important, in our view, that the auditor not be the original source of factual data or information about the entity and should not provide independent views on particular positions or decisions taken by management. Doing so would blur respective responsibilities and introduce unhelpful uncertainty. However, today's auditor's report can be meaningfully enhanced by highlighting the significant financial reporting judgements made by management in preparing the entity's financial statements that, in the auditor's judgement, users should consider as part of their understanding of the financial statements taken as a whole. Such judgements would represent areas of audit focus.
- To provide insight to the significant financial reporting judgements identified, the auditor's report can, depending on the quality of management's own disclosures, explain why they are important by summarising key matters from management's discussion of those matters in the financial statements. It is important, however, that the description not be seen as a way to "fill in gaps" in the entity's own disclosures, as the role of the auditor should be one of attestation not assertion. It is not appropriate for the auditor's report to be used to usurp management's responsibility for the fair presentation of the financial statements, including full and fair disclosure. The right response if management's disclosures are inadequate is to ask management to make the necessary amendments and, if they are not made, to modify the audit opinion.
- We do not believe that matters of a purely audit focus, in particular lists of audit procedures, can be concisely described in the auditor's report in a meaningful way. Any attempt to include such information is likely to be either excessively detailed and technical if trying to provide a fulsome picture, or overly simplistic and boilerplate descriptions. For these reasons, we recommend excluding such matters from the scope of auditor commentary. That said, we believe there are more effective alternative ways of engaging with users about the audit process outside of an entity-specific audit context, such as communications that offer insight into significant matters in particular industries. We have been engaging with investors in this way in some jurisdictions and it has been very well received.
- Auditing standards will need to clearly define and provide guidance on the parameters for the judgements that auditors will need to make in determining which of management's significant financial reporting judgements to highlight in this new section of the auditor's report. For example, the standard should provide guidance on the factors the auditor would take into account in selecting which matters to include. We provide some examples in our response to question 4 in the ITC in the appendix to this letter. Also, given that, in today's reporting model, any emphasis of matter is perceived as being a "problem", it might be useful, at least during transition, to manage expectations by explaining that most auditor's reports would include at least one matter, but most would typically include 3-5. Both the standard and the auditor's report will also need to clarify that the auditor's consideration of these matters in the audit is solely in the context of the financial statements taken as a whole.



- Going concern
  - We support addressing the topic of going concern in the auditor’s report in a manner that complements reporting by management.
  - Rather than make explicit the conclusions the auditor needs to reach in ISA 570, we believe a better model is for the auditor to draw attention to the disclosures management has made relevant to its evaluation of the entity’s ability to continue as a going concern and the outcome of that evaluation.
  - We acknowledge that this model is contingent on management having responsibility for making appropriate disclosures in the financial statements, including an explicit conclusion on the outcome of management’s assessment regarding the entity’s ability to continue as a going concern and their rationale. In this regard, we support the focus in a number of jurisdictions on how corporate reporting could be enhanced in this area, such as the UK’s Sharman Inquiry which issued its recommendations earlier this year, the Financial Stability Board’s initiatives in relation to banks, and the US Financial Accounting Standard Board’s projects on going concern and risk disclosures.
  - We recommend that, where management has responsibility for making such disclosure, the auditor’s statements regarding the entity’s going concern disclosures should be an integral part of the new section highlighting management’s significant financial reporting judgements to avoid any inference that this consideration is distinct or separate from the auditor’s opinion on the financial statements as a whole.
  - The “three category” model<sup>3</sup> should be retained as the underlying framework for the trigger points warranting a difference in auditor reporting on going concern.
- Other information
  - We support including in the auditor’s report a description of the auditor’s responsibilities to read the other information in an entity’s annual report (or equivalent). Stakeholders may not understand these responsibilities and may presume greater involvement by auditors than is the case. It is important, therefore, that the description clarify both the nature and limitations of the auditor’s procedures in order to reduce rather than exacerbate this misunderstanding, particularly if also including a statement on the outcome of those responsibilities as is proposed in the ITC.
  - We support including an explicit statement as to whether, at the time of signing the auditor’s report, the auditor is aware of any unresolved material inconsistencies between the other information and the audited financial statements. In doing so, certain practical issues will need to be considered: for example, situations when the other information is not available at the time the auditor’s report is signed or when the auditor’s report may be re-produced in a separate document containing additional or different ‘other information’.

---

<sup>3</sup> Situations in which there is no material uncertainty regarding going concern; situations when there are material uncertainties; and situations when use of the going concern basis is no longer appropriate and the liquidation basis should be used.



- Such statements will not, however, provide the assurance about the completeness, accuracy or reliability of the other information that our dialogue with investors has shown is being sought by some. They expressed an appetite for assurance on information that “move markets”, such as non-GAAP and industry-specific metrics, and management/directors’ remuneration reports. We therefore encourage the IAASB not to lose sight of the need to explore, as corporate reporting models and frameworks for reporting by management in these areas evolve, whether auditors should be asked to provide assurance on such matters in order to more fully meet users’ requests. These propositions will require wider changes to the corporate reporting model and the development of frameworks for reporting by management, including criteria or benchmarks, as well as consideration of whether auditor reporting would be cost effective and meaningful.
- Developments in integrated reporting models also need to be monitored closely. Many view integrated reporting as a solution that can address more comprehensively a broader range of information needs of users.
- Clarifications and transparency
  - The auditor’s report is a form of communication and we support changes that are designed to better communicate information that is relevant and useful to users.
  - We support including enhanced descriptions in the auditor’s report of the respective responsibilities of management, those charged with governance and the auditor. We believe more could be done to make this standard wording both easily understood and informative.
  - We also support making a clearer distinction between entity- and audit-specific information and standard wording through more effective structuring and presentation of the report. However, the descriptions of respective responsibilities and what an audit involves are important and, therefore, we believe that they should be part of the auditor’s report itself.
  - We do not support identifying the involvement of other auditors because it contradicts the principles underlying the group auditor’s responsibilities in ISA 600 but believe that it could be useful to include a generic description of a group auditor’s responsibilities. We are also not convinced that disclosure of the audit partner’s name increases either accountability or audit quality. However, if users would like this transparency, we are not opposed to disclosing it, but believe that such requirements are best addressed in national requirements, which can identify the appropriate vehicles and address legal implications.
  - We believe that the core elements should be the same for all auditors’ reports; some limited accommodation may be needed for national law or regulation. Although we do not support free-form tailoring by national standard setters, we believe flexibility should be provided if the objectives of the IAASB’s auditor reporting may be met in part in a different way under a national corporate governance and corporate reporting model.

Given the urgency some stakeholders believe is needed, we support the IAASB continuing to give this project its top priority, as noted earlier. Some of these changes will be easier to implement in standards and in practice, and others may require more time. That may influence the Board’s strategy on how best to move the project forward to meet those expectations.



**In conclusion**, we continue to believe that the time is right to enhance auditor reporting. The responses to the 2011 consultations helped to gain a better understanding of users' needs and, in our view, responding to these needs is important. We believe that changes can be made that can genuinely enhance the auditor's report, but care is needed to avoid making changes that could inadvertently do harm. The principles we set out on pages 3-4 are important in that regard, particularly the importance of the auditor not being the original source of information about the entity.

We support a reporting model that will work across capital markets. We continue to urge the IAASB to liaise with the European Commission and work in collaboration with the US Public Company Accounting Oversight Board to develop solutions that work globally. As noted earlier, given that the starting points vary across jurisdictions, some flexibility between jurisdictions may be needed, but unintentional and unnecessary differences in approach should be avoided.

In closing, we reiterate the belief we stated in our 2011 response that responsive enhancements in auditor reporting can be made in the shorter term and, as noted earlier, we urge the IAASB to progress this project as quickly as practicable. Longer-term reform of the corporate reporting model will be needed, however, to fully provide the information and insights that many are seeking. We, therefore, continue to emphasise the importance of reform of the corporate governance and reporting model more holistically. The IAASB has a role to play, and we continue to stand ready to work collaboratively with all interested parties to actively drive the broader corporate reporting agenda forward. Setting out a long term vision and how the proposed changes will fit into coordinated broader reforms would be useful to encourage debate on the broader agenda.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at [diana.hillier@uk.pwc.com](mailto:diana.hillier@uk.pwc.com), or myself, at [richard.g.sexton@uk.pwc.com](mailto:richard.g.sexton@uk.pwc.com).

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Richard G. Sexton', written in a cursive style.

Richard G. Sexton  
Deputy Global Assurance Leader



## Appendix

### Responses to specific questions asked in the Invitation to Comment

#### 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?*
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.*
  - We believe that it is possible to genuinely enhance the auditor reporting model to make it more informative and relevant, without usurping management's responsibility for the fair presentation of the financial statements or overwhelming users with detail about the conduct of the audit itself.
  - In our covering letter, we identify the specific enhancements that we support for the auditor's report, including, in some areas, suggested alternatives that we believe may better meet users' needs. We used the overarching principles, described in Annexe 1 to this appendix, when considering the relative merits of the proposed options for change and the specific questions set out in the ITC – in particular, in evaluating whether or not they would be constructive and would not inadvertently do harm.
  - There are many aspects of reporting that will need to be considered as stakeholders' needs and the broader corporate reporting framework evolve, including more frequent reporting and reporting on other aspects of entities' performance. As we stated in our covering letter, we want to be part of that dialogue.

#### 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?*
  - We support the concept of including a section within the auditor's report through which auditors would highlight the significant financial reporting judgements made by management in the preparation of the entity's financial statements that, in the auditor's judgement, users should consider as part of their understanding of the financial statements taken as a whole. Such judgements would represent areas of audit focus.
  - Users greatly value the auditor's opinion on the financial statements, but as the responses to the 2011 IAASB and PCAOB consultations showed, many users would like auditors to provide them with greater insight into the entity's financial reporting. The challenge is to determine what information can be added without inadvertently doing harm, such as usurping management's financial reporting role by using auditor commentary to fill in the gaps in the entity's own financial reporting, or introducing subjective views or providing excessive detail that would confuse rather than inform market participants.



- In the survey we conducted that we referred to in our covering letter, which was based on in-depth interviews with 104 investment professionals from 11 capital markets, many were sceptical about how the auditor’s report can be expanded in practice to really add value. Most indicated that they would value additional insights from the auditor. At the same time, however, they recognised both the practical difficulties and the risk of negative or unintended consequences. Like us, they understand the tensions in making valuable enhancements to today’s auditor’s report without inadvertently doing harm. They are concerned about potential unintended consequences of well-intended action, such as whether the dialogue and debate between the auditor and management or the audit committee would become less frank if elements of it could be reported externally. They also value quality over quantity and did not want disclosure for the sake of it, particularly if the additional information were to simply become boilerplate over time. These are important pitfalls to guard against as the IAASB creates the auditor’s report of the future.
- In today’s auditor reporting model, auditors are able to include an emphasis of matter paragraph in the auditor’s report to draw user’s attention to matters presented or disclosed that are “of such importance that they are deemed to be fundamental to a users’ understanding of the financial statements”<sup>4</sup>. However, with the exception of material uncertainties related to going concern, their use is relatively limited in practice. The ISA itself discourages widespread use of them so that their effectiveness in highlighting truly fundamental matters is not diminished. With the growing complexity in financial reporting and the ever increasing need for management to exercise significant judgement in financial reporting, we believe that there is an opportunity to use the auditor’s report more effectively to highlight for users the significant financial reporting judgements made by management in preparing its financial statements.
- In our survey, investment professionals indicated they were interested in information on areas where there is a risk of material misstatement. We believe that focussing on the significant judgements made by management in preparing the financial statements would be the most meaningful way of responding to that need – such judgements would represent areas of audit focus.
- To provide insight to the significant financial reporting judgements, the auditor’s report can, depending on the quality of management’s own disclosures, explain why they are important by summarising key matters from management’s discussion of those matters in the financial statements. It is important, however, that the description not be seen as a way to “fill in gaps” in the entity’s own disclosures, as the role of the auditor is attestation not assertion. It is not appropriate for the auditor’s report to be a substitute for management taking responsibility for the fair presentation of the financial statements, including full and fair disclosure. Doing so would breach the fundamental principle that the auditor should not be an original source of factual data or information about the entity. If the auditor believes that the financial statements are materially misstated, the appropriate response is to modify the auditor’s opinion, not to correct the financial statements by including factual data or information about the entity in the new section of the auditor’s report.
- It would also not serve the public interest to use auditor commentary to provide alternative views on the entity’s accounting treatments as this will result in either subjective or competing information to that presented by the entity itself. It is important to avoid unintentionally disrupting capital markets by introducing competing views of the true picture of the entity’s underlying financial position and/or performance. As illustration of this point, respondents to our survey of

---

<sup>4</sup> ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*



the investment community said they are interested in the auditor's view of the 'aggressiveness' of the financial statements – for example, in terms of the accounting policies applied and the judgements made by management. But at the same time, they questioned how feasible that would be in the absence of a definition or benchmark for 'aggressiveness'. Preparers and auditors work with the same set of criteria (the financial reporting framework, e.g., IFRS) in evaluating whether the financial statements are a fair presentation. The auditor must be satisfied that the financial statements are fairly presented or else must modify the auditor's opinion. The model is not geared to being able to *objectively* judge "shades of grey" or a scale of the extent to which the financial statements are fairly presented.

- In our view, the current Other Matter model in extant ISA 706 needs to be retained for factual matters regarding the audit that are required to be disclosed in the ISAs today (e.g., identification of a predecessor auditor). We do not believe that including such matters in the new section of the auditor's report is useful and, in fact, would detract from the objective of that section. The Other Matter paragraphs concept works well for that sort of information.
- We encourage the IAASB to design its reporting model to facilitate different approaches that may be adopted by different jurisdictions that achieve the IAASB's intended objective of this new section of the auditor's report. For example, we believe the model the United Kingdom is proposing – where audit committees will report, in the entity's annual report, on matters discussed with the auditors, with the auditor then including a statement within the auditor's report on whether the audit committee's report was a fair and balanced summary of those discussions – is a viable alternative to the auditor highlighting those matters directly within the auditor's report. This is one example of where, as we describe in our covering letter, flexibility between jurisdictions may be needed.

4. *Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgement of the auditor, with guidance in the standards to inform the auditor's judgement? 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?*

- Although supportive of a principles-based approach, we believe the objective as drafted, and illustrative matters to consider, are too broad. This is problematic. It could result in inconsistency in the matters included in auditor's reports in similar circumstances and information being included that we believe could harm capital markets rather than appropriately inform users. However, we do believe that the auditor's report can be enhanced to provide information that would be valuable to users, but more clearly articulated parameters are needed.
- To successfully implement the proposed new reporting model in a meaningful way, we believe auditing standards will need to define, and provide guidance on, the parameters for the judgements auditors will need to make in determining which of management's significant financial reporting judgements to highlight in the new section of the auditor's report.
- Greater consistency would be achieved in the first instance by clearly defining that the matters the auditor would highlight are the significant financial reporting judgements made by management in preparing the entity's financial statements that, in the auditor's judgement, users should consider as part of their understanding of the financial statements taken as a whole. As noted earlier, such judgements would represent areas of audit focus.



- Those significant financial reporting judgements would typically be in areas in which management had to exercise significant judgement in determining an appropriate accounting treatment and/or in dealing with significant measurement uncertainty. This could also include judgements made in relation to the treatment and disclosure of significant or unusual transactions. Some judgements may be grounded in industry specific matters, while others will be unique to individual companies. In developing the standard, and providing guidance, we believe it would be helpful to reflect these factors.
- As such matters are important to the fair presentation of the financial statements they should, as required, be disclosed in the financial statements. By drawing users' attention to those disclosures, and, depending on the quality of management's own disclosures, explaining why they are important by summarising key aspects of management's disclosure of those matters in the financial statements, auditors would be providing the type of insight that users are seeking.
- We also believe that, particularly in managing transition to a new reporting model, it would be useful for the IAASB to provide guidance that would manage expectations around the extent of matters to be disclosed. Investors and other users will need a period of adjustment to learn how to interpret the additional information being provided – since in the past any such matters (highlighted as emphases of matter in the auditor's report) might have been indicative of a problem in the financial statements. Therefore, helping them to understand what to expect will be important. For example, in addition to our views expressed in our response to question 8 on going concern that we believe would be one of the matters to be highlighted, it might be helpful to explain that there should ordinarily be at least one other matter that would be highlighted to avoid confusion around how to interpret a report with no matters identified (if the auditor had deemed there to be no matters to highlight or had simply not complied). Because the focus would be on *significant* financial reporting judgements, we believe that the matters identified might typically be in the range of 3 to 5. Providing this sort of guidance indicating what might represent a reasonable expectation will help auditors in exercising judgement on which matters to include, and help prevent misinterpretation that could arise if there were differences in the number of matters included simply because of different auditors making different judgements about what to include in similar circumstances.
- As explained in our response to question 8, when financial reporting frameworks have been enhanced to require disclosures relevant to going concern, we envisage that one of the matters that would be included as an integral part of the new section of the auditor's report would be the significant financial reporting judgements disclosed in the financial statements relevant to the entity's ability to continue as a going concern. As this is a fundamental judgement underlying the appropriate basis of preparation of the financial statements, we believe that the auditor's highlighting of going concern disclosures would be best positioned together with the identification of other significant financial reporting judgements, as opposed to a distinct section of the report.
- As a general principle, we believe that the focus should be on disclosures in the financial statements. We recognise that contextual information relevant to significant financial reporting judgements may be included in management or directors' commentary elsewhere in an entity's annual reporting. However, in most jurisdictions today, the audit is restricted to opining on the financial statements and related disclosures.



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?*

- We describe in our response to question 3 what we believe represents the appropriate nature and extent of matters to be included in the new section of the auditor’s report and why we believe that would provide the type of useful information users seek. We also describe what aspects of the IAASB’s proposals for auditor commentary would not be appropriate or valuable.
- We do not believe that matters of a purely audit focus, in particular lists of audit procedures, can be concisely described in the auditor’s report in a meaningful way. Any attempt to include such information is likely to become either excessively detailed and technical, if trying to provide a fulsome picture, or overly simplistic and boilerplate descriptions. In particular, identifying only certain procedures, in the absence of sufficient context regarding the audit approach and methodology, could diminish users’ perception of the auditor’s work effort, which may increase the expectations gap. That, coupled with the potential for lack of comparability of matters highlighted across entities, could exacerbate, rather than reduce, perceived misconceptions of audits. Some argue if something is communicated to audit committees, it should be included in the auditor’s report. However, reports to audit committees are just one part of the dialogue between auditors and audit committees that provides necessary context regarding the audit and the work of the auditor. There is a danger that in trying to distil the complexity of this dialogue, its meaning would be lost. There is also a considerable risk that the descriptions could easily become either too technical or boilerplate descriptions of “standard” procedures. In this regard, it is useful to reflect on the experience in France regarding the “justification of assessments”. In a survey of users of reports in France, users commented that such disclosures have become excessively standardised, reiterating procedures performed without sufficient context and using language that is not easily understood. Feedback from investment professionals in France to our recent survey indicated that they found that the discussion of audit procedures provides, in their view, only limited additional value.
- That said, we believe there are more effective alternative ways of engaging with users about the audit process outside of an entity-specific audit context, such as communications that offer insight into significant matters in particular industries. We have been engaging with investors in this way in some jurisdictions and it has been very well received.
- As we note in our response to question 4, for the enhanced model of auditor reporting to provide information users seek, it will be critical that the objective and nature of the new section of the auditor’s report is well explained to users in advance of, and during the period of transition to, the implementation of the revised auditor’s report format so that such reporting is not perceived in a similar light to the existing emphasis of matter reporting model, which can often be interpreted by users as representing some form of ‘qualification’ of the auditor’s opinion on the financial statements. One of the fundamental goals of enhanced auditor reporting is to close aspects of the expectations gap and education of users about the changes made is a vital part of that process.



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, the timing of the financial statements, and costs?*

- As we explain in our overall principles and in our response to question 3 above, the auditor should not be the originator of factual data or information about the entity. To do so would blur the responsibilities of auditors and management.
- In addition, the audit model depends on effective communication among the players. Scepticism and challenge are key elements of an audit. Audit effectiveness also depends on the ability of the auditor to have effective communication with, and obtain information from, management and those charged with governance. Care needs to be taken, therefore, that the proposals regarding the nature and extent of matters that would be highlighted in the new section of the auditor's report would not inadvertently negatively affect the openness of that dialogue. If it did, it could have a negative effect on audit quality because, for example, it could impede the auditor's ability to obtain sufficient appropriate evidence. As we note in our response to question 3, a number of respondents to our survey of the investment community were concerned about the dialogue and debate between the auditor and management or the audit committee becoming less frank if elements of that dialogue could end up being reported externally.
- As we have previously noted, respondents to our survey also acknowledged difficulty in asking auditors to provide meaningful insight into the 'aggressiveness' of a company's accounting policies and estimates in the absence of a definition or benchmark for 'aggressiveness' – a view we share.
- During the period of transition, we anticipate that there will inevitably be dialogue between auditors and management and those charged with governance, including robust discussions around the proposed content, as all parties adjust to the new reporting regime. However, we view this dialogue positively and we do not foresee any significant implications for the roles of management and those charged with governance as long as the auditor does not become the originator of information about the entity.
- Similarly, it is likely that incremental time and costs will be incurred, as a result of the additional dialogue with the client, and also internally within audit firms through the need for additional quality control mechanisms. This may provide pressure on already restrictive reporting timetables for listed entities, although in the longer term, consideration of auditor reporting would become part of the normal planning processes that take place in an audit and built into existing timetables to which clients currently report. However, in moving forward with the revised model, all stakeholders should be aware that there are likely to be implications for both timing and costs.

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 to determining the audits for which Auditor Commentary should be provided?*

- Calls for change are coming predominantly from shareholders and investors of listed/public companies. We believe it is appropriate to target the new section of the auditor's report at this sector.



- Given their unique characteristics of ownership and governance, we do not believe that the proposed new section of the auditor’s report would have relevance for non-public and small to medium-sized entities (SMEs). The relative cost/benefit justifies a differential reporting model for that sector.
- We do not support allowing this new section of the auditor’s report to be optional for auditors of SMEs. Doing so may give rise to unintended consequences, for example, audits for which the auditor elected not to include this new section being perceived as ‘lower quality’. Instead, for such entities, retention of the Emphasis of Matter paragraph model might remain preferable.
- As we note in our response to question 5, education of users about the intended nature and purpose of the new auditor reporting model will be an important aspect of the IAASB’s role, particularly if adopting a differential reporting model for different types of entities.
- If IAASB is proposing to extend the new section of the auditor’s report to PIEs, we would advocate further consideration of the definition of public interest entity and the relative merits in providing exemptions for wholly-owned subsidiaries of public interest entities, although recognising, as the IAASB does, that the definition of public interest may need to be a jurisdictional matter.

### **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?*

- We support the objective of providing users of financial statements with enhanced information on the key judgements and considerations around going concern.
- We believe the information on going concern in financial reports could be improved, primarily through enhanced management reporting, though as we explain further below the current patchwork of requirements around the world may preclude ‘quick fix’ solutions that can be applied globally. In any event, we do not believe that a ‘step-change’ in the quality of information on going concern provided to users could be achieved solely through amending the auditor’s report. To the extent there is an ‘expectations gap’ with respect to going concern, it will not simply be closed through the proposals in this ITC. In this regard, we support the focus in a number of jurisdictions on how corporate reporting could be enhanced in this area, such as the UK’s Sharman Inquiry which issued its recommendations earlier this year, the Financial Stability Board’s initiatives in relation to banks, and the US Financial Accounting Standard Board’s projects on going concern and risk disclosures.
- While the entity’s ability to continue as a going concern is a fundamental assumption underlying the decision to use the going concern basis of preparation in many financial reporting frameworks, including IFRS, most financial reporting frameworks do not require explicit disclosure by management regarding their conclusion and their rationale in reaching that conclusion. We do not believe that auditors should be required to conclude independently of management as to whether an entity is a going concern – a principle that already underlies the focus in ISA 570 on the auditor evaluating *management’s assessment* of the entity’s ability to continue as a going concern. Similarly, while we are open to the concept of addressing the matter of going concern in the



auditor's report, we believe this should complement reporting by management. Consistent with our principle that auditors should not be the source of original information about the audited entity, we believe that the focus should be on enhanced reporting and disclosure by *management* of the key judgements and considerations around going concern.

- The need to focus, in the first instance, on improved disclosures in the financial statements is borne out in the feedback we received in our survey of investment professionals. Respondents were relatively content with the information available to them from auditors regarding going concern (i.e., drawing attention to material uncertainties), but they did see room for improvement in company disclosures around, for example, covenant information.
- In our view, users' understanding of an entity's ability to continue as a going concern will be enhanced if management includes a clear explanation as to why they concluded that it is appropriate to prepare the financial statements on a going concern basis. For example, this could be linked to enhanced disclosures by management on the company's business model, its financing, and liquidity and solvency risks. Recommendations along these lines were made in the report of the UK Sharman Panel of Inquiry on Going Concern.
- Such disclosures could usefully make clear that the assessment made by management is in the context of supporting the fair presentation (or true and fair view) of the financial statements and that future events cannot be predicted with certainty. It is not intended to be, and should not be viewed as, a self-standing guarantee as to the entity's future viability. Nor, are auditors able to give, or be seen as giving, a guarantee of the future viability of the entity.
- Hence, rather than making explicit in the auditor's report the conclusions the auditor needs to reach in ISA 570, as proposed in the ITC, we support the model of the auditor drawing user's attention to those parts of management's disclosures that are relevant to their assessment and the basis on which the accounts are prepared.
- We believe that the reference to going concern by the auditor should be included within the new section of the auditor's report highlighting significant financial reporting judgements, rather than a separate section on its own – recognising that it is one of the key judgements made in the context of the fair presentation of the financial statements as a whole. Providing a separate and distinct conclusion on going concern, in our view, risks confusion with, or detraction from, the auditor's overall opinion on the fair presentation of the financial statements – of which the going concern assumption is an integral part.
- Further, we consider that the discussion of going concern in the auditor's report should be complete, that is, it should include a description of the concept and management's responsibilities, to provide necessary context, together with an explanation that it is not possible to provide a guarantee as to future viability. Describing these elements separately from where the auditor highlights the entity's going concern disclosures would make the report, in our view, more disjointed and difficult for users to read. Importantly, if readers do not make the connection between the auditor's highlighting of management's going concern disclosures and the necessary context to those disclosures that is elsewhere in the report, they could draw inappropriate conclusions. We believe it is important for the auditor's report to deal comprehensively with going concern all in one place.



- This suggested approach presumes that management is required to provide certain disclosures regarding going concern in the financial statements. As we note above, we recognise that requirements for such disclosures differ across jurisdictions. In most countries, the disclosures required around going concern are driven by the financial reporting framework. In the case of IFRS, for example, disclosure is only required when there is a material uncertainty, or where it is no longer appropriate to prepare the accounts on a going concern basis.
- While improved and more ‘joined up’ narrative reporting on going concern would be desirable in all jurisdictions, achieving consistency and comparability of such reporting around the world may take many years. Many factors impinge on the landscape for reporting in the area. The liability and safe harbour regimes applicable to both management and the auditors may differ significantly and act as an impediment to reporting solutions that could work globally. Conventions regarding the appropriateness of making such disclosures in the annual report elsewhere than in the financial statements, and the extent to which auditors can refer to disclosures outside the financial statements, also differ markedly.
- The IAASB is certainly not in a position to solve all of these issues, nor to direct the disclosures that management provides in the financial statements and annual report. The Board is, however, able to input to the debate about corporate reporting and corporate governance together with other standard setting and regulatory bodies. Therefore, we encourage the IAASB to continue to engage with those parties to help drive international thinking to a holistic corporate governance/corporate reporting/auditing approach that would best meet users’ needs for additional information about going concern rather than opt for a short term solution through the auditor’s report alone.
- Finally, we note that going concern has been a topic of debate during the financial crisis in relation to banks and other financial institutions. We suggest that any solutions proposed for auditor reporting on going concern be assessed for their operability and suitability in relation to banks and other deposit taking institutions. The unique characteristics of the sector may necessitate applying the model (or at least the trigger points for disclosure where there are indicators of uncertainty) differently. For example, if a bank is in difficulties and is considering seeking government support, disclosure around that fact would need to balance the need for transparency against the legitimate objective of financial stability and the need to avoid precipitating a bank failure. The tension between these objectives was recognised, for example, in the Sharman Inquiry report. This is something the IAASB may wish to explore further with prudential and other regulatory authorities.

9. *What are your views on the value and impediments of including additional information in the auditor’s report about the auditor’s judgements and processes to support the auditor’s statement that no material uncertainties have been identified?*

- In our view, the current ‘three category’ model of auditor reporting on going concern (straightforward case with no material uncertainty; emphasis of matter in case of material uncertainty; liquidation basis where going concern no longer appropriate) has worked relatively well, including, in our view, through the recent years of financial crisis. We therefore see no compelling need to move away from the current ‘three category’ model in ISA 570.
- Paragraph 30 of the ITC suggests that additional commentary around the auditor’s judgements and processes might be provided in the case of “near misses”, that is, situations where the possibility of a material uncertainty was considered but it was ultimately concluded that a material uncertainty requiring disclosure did not exist. We would not favour an approach that would, in effect, create a



‘fourth category’. First, this would require another series of borderline judgements around what might constitute a ‘near miss’ situation. Second, in the absence of an equivalent reporting obligation on the part of management, it would lead to the auditor becoming the trigger for this category of disclosure (and, as acknowledged in paragraph 30, providing entity-specific information that is not disclosed by management – contrary to our strongly held view that the auditor should not be the original source of information). Finally, once the auditor is satisfied that there is no material uncertainty, it would seem illogical to then introduce commentary that may of itself generate uncertainty. Doing so may create unnecessary confusion in the mind of users and, in the extreme, generate adverse reactions to an entity’s situation that would precipitate conditions of material uncertainty.

- Hence, unless and until financial reporting or other disclosure requirements change, we would not favour the proposal in paragraph 30.

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

- We support including a description in the standard auditor's report that clarifies the auditor's responsibilities regarding other information in documents containing audited financial statements, based on the auditor’s extant responsibilities in ISA 720 to read other information for material inconsistencies. Stakeholders may not understand these responsibilities and may presume greater involvement by auditors than is the case. Some stakeholders may even currently believe that the other information has been audited. It is important, therefore, that the description clarify both the nature and limitations of the auditor’s procedures, in order to reduce rather than exacerbate this misunderstanding, particularly if also including a statement on the outcome of those responsibilities as is proposed in the ITC.
- We support including an explicit statement as to whether, at the time of signing the auditor’s report, the auditor is aware of any unresolved material inconsistencies between the other information and the audited financial statements. For example, the auditor could state, "Based upon reading it, we are not aware of any unresolved material inconsistencies, at the time of signing this report, between this information and the audited financial statements". We prefer this language over what is included in the ITC as the auditor may identify inconsistencies that are resolved before the financial statements and annual report have been released, potentially making the proposed language ("We did not identify any such inconsistencies") confusing. If inconsistencies remain, the auditor could state, "We identified the following inconsistencies...". Where inconsistencies have been found that were resolved before the financial statements and annual report have been released, we believe users’ interests would not be served by the auditor drawing attention to them.
- The proposals we support and in the ITC are based on a presumption of the continued application of extant ISA 720. We are aware that the IAASB is currently considering proposed changes to ISA 720 that would extend the auditor’s responsibilities in this area. Where the existing ISA 720 requirements are proposed to change, the thresholds for, and merits of, public reporting aspects of those changes will need to be carefully considered.
- There are also some practical implementation issues the IAASB needs to consider. For example, consideration needs to be given as to how the situation of the other information not being available at the date on which the auditor signs their report would be dealt with in the report – this scenario



is common in some jurisdictions. Similarly, when the auditor's report is included in a subsequent document, for example a prospectus, there may be both risk of confusion about the auditor's responsibilities for other information in the subsequent document, and also possible legal implications (e.g., if the original other information could be considered to be included within the scope of the subsequent document because of the reference to it in the auditor's report).

- While supporting the proposals regarding other information, we are aware that they will not provide the assurance about completeness, accuracy, or reliability of other information that our dialogue with investors has shown is being sought by some. To be able to do so, it would be necessary to consider whether the auditor's responsibilities could be expanded to accomplish providing that sort of separate assurance in a cost effective manner. Our research with the investment community showed that many would value assurance over metrics that "move markets", such as non-GAAP and industry-specific metrics, and management/ directors' remuneration reports – information and metrics that inform their investment decision-making. The proposals in the ITC will not meet that need. Another area in which additional auditor assurance could be explored includes key performance indicators related to non-financial measures of entities' performance, certain aspects of entities' corporate governance arrangements and risk management systems or other internal controls.
- Therefore, while we support expanding the auditor's report to provide a statement based on today's limited responsibilities to read the other information to identify material inconsistencies with the audited financial statements, we encourage the IAASB not lose sight of the need to explore whether auditors could be asked to provide assurance on such matters, separately, as corporate reporting models and frameworks for reporting by management in these areas evolve.
- These propositions will, however, require wider changes to the corporate reporting model, including the development of appropriate benchmarks and sufficiently robust criteria, which may include industry-focussed measures, to provide consistency, both in management reporting and the auditor's procedures thereon. One potential risk associated with this approach is if management perceive any imposed criteria as overly restricting their ability to discuss the entity's performance using their own views. Investment professionals in our survey understood the potential for unintended consequences of having a more formalised reporting and assurance model for this information, as it could result in a reduction in the volume of disclosures. Therefore, further consultation between management, users and corporate reporting standard setters may be necessary to identify an appropriate way forward in this area. Because it would involve increased cost, users would need to be convinced that the benefits of the additional assurance exceed the costs.

### **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?*

- We fully support including enhanced descriptions of the responsibilities of management, those charged with governance and auditors in the auditor's report. Clearly defining the relevant responsibilities of the parties helps address misconceptions amongst users, for example, in relation



to the basis for and decisions regarding the appropriateness of preparing the financial statements using the going concern assumption.

- The aim should be to have the descriptions in the standardised wording as clear and accessible as possible. We believe that more could be done to make this standard wording both easily understood and informative.
- The primary purpose of the auditor's report is the expression of the opinion on the financial statements. That is what users are most interested in. It is important not lose sight of this when considering the nature and extent of additional contextual material to be included in the auditor's report. Excessive detail could distract attention from the opinion. Therefore, we encourage the IAASB to give further consideration to the relative merits of the extent of, and alternative ways of organising and presenting, this "standard" text.

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

- The disclosure of the audit engagement partner's name and/or the name of the firm's ultimate responsible partner is common practice in many jurisdictions today. However, in our view, such disclosure does not enhance accountability or audit quality, but we acknowledge that some would like this transparency. We also recognise that there are jurisdictional legal considerations that need to be taken into account. There may be, for example, other vehicles for disclosing this information that would be preferable in particular legal environments. In addition, jurisdictions with such disclosure requirements have often found it necessary to include appropriate safeguards to mitigate the risk of personal threats to individuals. For these reasons, we believe that it would be better to have this matter addressed at a national level rather than in the ISA.

*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 judgement as part of Auditor Commentary?*

- We do not support the proposals relating to identifying the involvement of other auditors. In our opinion, such disclosure would contradict the principles underlying ISA 600 – the group auditor is responsible for the audit and therefore for the work of other firms. We also believe such disclosures do not aid transparency and may actually increase rather than reduce the expectations gap by introducing confusion over responsibility for the audit.
- We would support including a generic description of the responsibilities of a group auditor in a group audit engagement. As this would be a standardised description, we do not believe it belongs in the new section of the auditor's report – which should be entity and audit specific – but rather could be a conditional paragraph that forms part of the standard description of an audit.

*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?*

- We believe that the overarching principle should be that information relevant to user's understanding of the auditor's report must be accessible.



- We support making a clearer distinction between entity- and audit-specific information and standard wording through more effective structuring and presentation of the report. Differentiation of entity specific matters from standardised language is clearly useful from a communications perspective.
- However, we believe that the standardised material should be an integral part of the auditor's report. Including standardised material within the body of the report has the advantage that the information accompanies the other elements of the report and is easily identifiable. While it does extend the overall length of the auditor's report with, what some might call, "boilerplate" wording, those descriptions contain information important to users' understanding of the auditor's opinion, and should therefore be part of the auditor's report. We do not, therefore, believe that the use of a website to 'host' standardised information is a viable option.

### **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 are supportive of proposals that will improve the communicative value of the auditor's report.
- We believe there is merit in placing the auditor's opinion at the beginning of the report as this is what users tell us is of greatest importance to them. Indeed, this has been a common reporting practice in certain territories for a number of years (for example, the PwC firm in the US has used that format).
- Taking into consideration our recommendations in question 8 (in relation to location of going concern statements within the report) and question 14 (how standardised text might be presented), it follows that the new section highlighting the significant financial reporting judgements made by management would be presented following the auditor's opinion in the report. This is entity-specific information that is of relevance to users understanding of the financial statements and so prominent placement within the report is warranted.

*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?*

- In line with our overarching principles, we believe that auditor reporting should be sufficiently similar to facilitate users' comparison of the underlying economic reality/ state of affairs of different entities. To the extent possible, therefore, the content of the 'core' elements should be the same for all auditors' reports.
- We acknowledge that some limited accommodation may be needed in circumstances when law or regulation or national auditing standards dictate particular wording. However, we believe this can be accommodated within an overall consistent structure of the report. We, therefore, support the extant practice, whereby any additional reporting imposed as a result of local law or regulation is presented in a separate part of the report after the main body of the report on the financial statements.



- We do not support permitting free-form tailoring by national standard setters, where there is not a jurisdictional legal or regulatory basis for doing so, as this would detract from global consistency. The public interest will be best served by different standard-setters working collaboratively to ensure that, as far as possible, consistent auditor reporting models are developed.
- However, while we do not support widespread tailoring of the ISA auditor's report at a national level, we do believe that the IAASB needs to anticipate and allow sufficient flexibility to accommodate different approaches to achieving the same objectives of some of the proposed changes. In the UK, for example, the proposed Effective Company Stewardship model could result in some of the information the IAASB is proposing be included in auditor's report being included in the audit committee report. That model would not work in jurisdictions in which the corporate governance regime is not yet as developed, or has not developed in this way, and, therefore, we understand why the IAASB is not pursuing that approach as the preferred global model. However, where the reporting objectives can be achieved, how the relevant information is reported should not be an impediment to national adoption. See the last bullet in our response to question 3.

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?*

- Consistent with our response to question 16, we are supportive of measures that enhance the consistency of auditor's reports across jurisdictions. To that end, we share the IAASB's belief that there is likely to be merit in mandating the ordering of elements of the report, unless otherwise required by 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?*

- We support a single set of principles-based auditing standards that are scalable to all entities. Measures which reduce administrative burden on entities are welcomed but only where they do not reduce audit quality. Audits, no matter the size of the entity, are intended to provide a similar level of assurance. For that reason, the 'core' content of the standard auditor's report and opinion on the financial statement should be the same for all entities.
- However, the unique characteristics of ownership and governance of some entities, and the relative cost/benefit, may justify limiting auditor commentary to listed/public companies. See our response to question 7.



**Principles from PwC 2011 IAASB Auditor Reporting Consultation Response Letter**

**Our overarching principles for effective auditor reporting**

As we evaluated various options for additional reporting, we assessed them against the following principles. We found them to be useful guideposts to identifying constructive changes and avoiding changes that inadvertently do harm.

- **Changes made to auditor reporting should:**
  - **Maintain or improve audit quality.** Audit quality is paramount and could be negatively affected if auditors were asked to report on matters beyond their competence, or if the proposed solution inadvertently affected the auditor's ability to obtain sufficient appropriate audit evidence.
  - **Enhance the value of the audit to users.** Users should see substantive value from the changes. To be sustainable, they must also believe that the incremental benefits of that additional information exceed the costs involved.
  - **Increase the reliability of information the entity provides in public reports.** Providing assurance on information that was not previously subject to audit/assurance directly affects its reliability. Some of the options may also have an indirect positive impact if they serve to increase the attention that management and those charged with governance pay to those elements of their corporate reporting.
- **Changes should maintain or enhance the effectiveness of the relationships and interactions of auditors, those charged with governance (e.g., audit committees) and management in the financial reporting process.** The audit model depends on effective communication among the players. Scepticism and challenge are key elements of an audit. Audit effectiveness also depends on the ability of the auditor to have effective communication with and obtain information from management and those charged with governance. The impact of the proposed solutions on the finely balanced interrelationships between auditors, those charged with governance and management needs to be considered so that they don't impede the auditor's ability to obtain sufficient appropriate audit evidence.
- **Auditor reporting should be sufficiently similar to facilitate users' comparison of the underlying economic reality / state of affairs of different entities.** Any move away from a completely standardised report and opinion will inevitably introduce some variation. Financial reporting and auditing also require significant exercise of professional judgement. To be viable, the solutions proposed must result in information that can both inform economic decisions and contribute to market confidence. Including in auditor reporting information that is subjective or variable (such that two auditors given the same fact pattern and information could come to different conclusions and issue substantively different reports) will not meet this criterion.
- **Auditor reporting can provide greater insight based on the audit but the auditor should not be an original source of factual data or information about the entity.** Factual data or information about the entity should be reported by the entity, i.e., by management and/or those charged with governance, to avoid blurring the responsibilities of auditors, management and those charged with governance. This is also important to avoid unintentionally



confusing investors and disrupting capital markets by providing competing views of the true picture of the entity's underlying financial position and/or performance.

- **In the shorter term, the adoption of different approaches that achieve the objectives of additional reporting may be necessary.** To the extent possible, the content of the “core” elements and auditor’s opinion on the financial statements should be the same for all auditors’ reports. Some limited accommodation may be needed in circumstances when law or regulation or national auditing standards dictate particular wording or structure (as is recognised in the ISAs today). For any proposed additional auditor reporting, however, the focus may need to be on the objective or aim of that reporting rather than the way that it must be done because of underlying differences in financial reporting, corporate reporting and corporate governance frameworks.