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21 November 2013

Mr. James L. Gunn
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York 10017

Dear Sir

International Auditing and Assurance Standards Board ('IAASB')

Exposure Draft

Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

I welcome the intended reforms for improving the Auditor's Report on audited financial statements as outlined in the IAASB Exposure Draft 'Reporting On Audited Financial Statements : Proposed New and Revised International Standards on Auditing (ISAs)' ('ED').

On review of the intended reforms, my feedback to the IAASB follows:

1. Form

The illustrative example 'Independent Auditor's Report' included in the IAASB ED at paragraph 31 and appended to the IAASB 'At A Glance' paper could be better formatted.

Perhaps the illustrative example could be reformatted in shorter sentences, shorter paragraphs, embedding the use of 'white space' to enhance clarity, sub-headings and bullet-points as sign-posts for content. This would make the layout of the report visually more attractive than the existing 'grey sludge' example, enticing the reader into the contents of the report.

The Vodafone Group Plc 2013 Audit Report, as an alternative example, was certainly more readable as a consequence of improved formatting.

Exposure Draft**Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)****2. Content**

While it is a challenge to accommodate the varying levels of skill and interest of stakeholders in the Independent Auditor's Report, across multiple cultures and regulatory domains, the IAASB ought not to assume the audience will be well versed in detailed, complex or nuanced auditor's reports.

It would be easy to assume that stakeholder readers are experienced analysts, stockbrokers, shareholders with comprehensive commercial or legal expertise, senior executives, standard setters, regulators and the like. I prefer the notion that an Auditor's Report should be prepared for the information of a reasonable (wo)man on the 'Clapham omnibus' (United Kingdom), 'Bondi (or Bourke Street) tram' (Australia) or 'Shaukiwan tram' (Hong Kong), who may wish to make decisions and act with regard to the opinion expressed.

The content of the Auditor's Report might be better structured, in the following order, to address:

- a) **'why'** the audit is conducted. Not all stakeholder readers know 'why' an audit is conducted. The purpose of an audit conducted for the subject entity in the context of the regulatory domain of that entity should be expressed up-front, establishing a context for the auditor's opinion. In the present ED illustrative example, generic text describing the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' goes some way to outlining the purpose of the audit;
- b) **the 'outcome' of the audit**, expressed in a cogent opinion and basis for that opinion;
- c) **a summary of matters following**, perhaps in an index or simple guide to help readers find their way through the balance of the report;
- d) **'how'** the audit was conducted - for example, the audit could be risk-based or substantive, continuous or periodic, may employ sophisticated or simple techniques or methodologies, may incorporate reliance on expert opinion, etc;
- e) **'what'** key audit matters emerged and were considered during the course of the audit;
- f) **the responsibilities of those charged with governance and management** for the financial statements, indicating the relationship between the auditor and those charged with governance / management;
- g) **representations** in respect of the auditor's independence, ethical positions, etc; and
- h) **'who'** conducted the audit, including the name, qualifications and contact details of the engagement auditor (lead engagement partner).

I am not in favour of allowing additional content to be appended or referenced on third party websites. I believe the report should stand alone and be self-contained. Where reports are embedded in a company's website or other electronic document, hyperlinks to additional content located elsewhere may risk that content being disconnected or at worst, expurgated from the main body of the report, intentionally or possibly unintentionally depending on the digital literacy of the reader.

3. Transformation

Further to the recommendation at 2. e) above, perhaps auditors might be encouraged to comment upon any differences or similarities between key audit matters this year, as compared to last year.

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It would be informative for stakeholder readers to understand the status and detail of continuing key audit matters or new or terminated audit concerns across accounting periods (perhaps the analogy is the comparative disclosures for current year financial statements).

For example, the auditor may have commented in the prior period report upon the audit implications of the acquisition or disposal of a substantive business and report in the current period that there are no continuing audit concerns. Alternatively, the auditor may report a continuing focus in the current period audit on that acquisition or disposal.

4. Implementation

Beyond the format and content of the Auditor's Report, there are real considerations for implementation of the proposed changes.

While the ED (paragraph 8) identifies benefits that could be realised as a result of the Proposed ISAs, including:

- enhanced communication with users;
- increased attention by those charged with governance / management to disclosures in the financial statements;
- renewed focus by auditors on their role and matters to be reported; and
- enhanced communication between the auditor and those charged with governance / management,

the ED does not offer any guidance on implementation of the changes – particularly for auditors and those charged with governance / management.

Following implementation of these proposals, a more comprehensive Auditor's Report will not of itself strengthen public confidence in the global auditing and assurance profession.

Renewed confidence in audit quality and users' perception of it will devolve from users' experiencing for themselves the purpose (benefits) of an audit. This experience will be manifest in deep engagement between stakeholders – as a consequence of users better appreciating the implications of the report, but more likely as a consequence of trust growing between the stakeholders on the basis of:

- the **credibility** (competence) of auditors and those charged with governance / management, for their contributions in enhancing financial statement disclosures;
- the **reliability** of auditors and those charged with governance / management, for their public standing and commitment in support of ongoing contributions to enhance financial statement disclosures; and
- a growing **intimacy** (openness) between the stakeholders or their trusted proxies, which may include analysts, financiers, stockbrokers, the media, regulators, informed commentators, etc.

It would be helpful if the ED could include guidance material offering insight to assist stakeholders manage the inevitable changes, with a view to:

- enhancing engagement between stakeholders;
- promoting quality discourse among stakeholders; and

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Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

- managing consequence for stakeholders.

I welcome the IAASB's initiative in proposing to undertake a post-implementation review of the Proposed ISAs (ED paragraph 27). This review might be benchmarked against guidance included in the ED to assist stakeholders manage the inevitable changes.

5. Consequence

While the ED is predicated on these proposed changes benefitting stakeholders, the ED is silent on the consequences for stakeholders of these proposals.

Perhaps the ED might anticipate the consequences for key stakeholder groups, to lift expectations for outcomes flowing from these proposals and differentiate the benefits among stakeholder groups.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter W Young', written over a light blue rectangular background.

Peter W Young, FCA CPA MAICD