



## **SPAIN.- ICAC'S ANSWERS TO IAASB PAPER "IMPROVING THE AUDITOR'S REPORT.**

### **1.- Do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report? Are there other alternatives to improve the auditor's report, or auditor reporting more broadly?**

As a general comment, ICAC appreciates the work done by IAASB in this regard and supports the content of the consultation as a basis for obtaining a higher transparency of the auditor report. We would like to remark some improvements included in this consultation as the structure, the going concern statement.

However, especially in relation to the "Auditor commentary" section it should be avoided to include, in the auditor's report, information that is not relevant or information that may create confusion in relation to its relevance and usefulness.

Sometimes, giving more explanations may not mean giving more information, especially if this information is not hierarchical or there are no guidelines for auditors about which information should be part of the report and what information is not relevant enough to be part of it.

### **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?**

### **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?**

Though ICAC feels comfortable with the "Auditor Commentary" section, we consider that this section should be divided into two parts: one referring to issues related to the financial statements (as a remark about the notes the auditor considers to be highlighted) and the other referring to those issues related to the work performed by the auditor. Otherwise, it could confuse the users.

The audit report should not contain information not provided by the audit firm. Also, it should not contain information that affects the auditor's opinion. Such information should only be included in the auditor's opinion paragraph.

### **4.- Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary?**

There should be guidelines for auditors to know at all times what to include in this paragraph. It is also very important that the boundaries are clearly defined between this paragraph and the auditor's opinion one.

The guidance should also indicate the order of paragraphs to highlight priorities.

Now this paragraph includes both the emphasis of matter paragraph and the other matter paragraph and since the distinction between both has disappeared we consider it important that the matters included or highlighted here are listed according to their importance.

Otherwise, the auditor may include any matter on the report that would lead investors to misunderstand the matters of importance.

**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 believe that it is very useful, when describing the procedures carried out during the audit, that the corresponding results obtained are also described to avoid lack of information.

This way the information given is complete and gives a better idea of the work done by the auditor and the results obtained that are the basis for the opinion issued.

However, the above mentioned should only apply if the audit report issued does not contain a qualified opinion or a disclaimer of opinion.

**6.- What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs?**

The auditor's field work should not change, but with this new model the auditor may need more time to draft the final report, since more information needs to be included. At that moment the auditor has to decide which information should be included and which not, and where to place the information inside the Auditor's commentary section, according to its importance.

However, there shouldn't be a substantial change of the content of the report. As the consultations states, the Auditor Commentary incorporates the emphasis of matter paragraph and the other matter paragraph. Therefore, the idea that the report incorporates much more information at the discretion of the auditor should not be given.

**7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities, and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided?**

There should be a single report model adapted, according to the auditor's judgment, to the size or importance of the company.

The existence of two report models reduces the comparability of information for stakeholders and investors. Moreover, it would make more difficult the understanding of the report.

Public interest entities should not have a different audit report model.



**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 going concern assumptions and whether material uncertainties have been identified? Do you believe the statements provide useful information and are appropriate? Why or why not?**

If this paper is only considering the situation when the audit report contains an unqualified opinion, we agree with the proposed going concern paragraph.

However, when the audit report issued contains a qualified opinion or a disclaimer of opinion related to a going concern matter it would necessary to clarify if this matter should be referred to only in this paragraph or whether it should be referred to in this paragraph and in the auditor's opinion as well.

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

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

**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?**

When describing the responsibilities of management those relating to going concern should be included.

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

We agree with this proposal, since it helps to assign the responsibility for the audit to a specific person.

**13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors?**

At first, ICAC considers that including, in some cases, the name and location of other auditors involved may not be helpful for the users.

Moreover, it could lead to confusion about the auditor's responsibility when performing the audit procedures about the work done by other auditors, according to legal requirements.

The disclosure of the name of other auditors does not give any additional information that would offset the confusion generated.

In any case, the statement should include a mention that the auditor responsibility is not limited by the disclosure of any other auditors.



Moreover, the obligation to “identify each member of the audit engagement team and to state that all members remained completely independent and had no direct or indirect interest in the audited entity” could give rise to excessively broad information in the case of audits of consolidated groups.

Nevertheless, if it is required by the relevance of the information and these terms are included, it should be clearly stated that it would not affect the responsibility of the auditor regarding the audit work nor the auditor’s opinion.

**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?**

Standardized information should be out of the report due to the fact that this information doesn’t provide added value to the information already stated in the report.

If included on a web page, it should be on the website of the auditor, instead of the website of the competent authority as proposed in the text.

**15. What are your views on 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 positive with the new structure; in particular, we support a greater prominence to the auditor’s opinion (paragraph 18), followed by the basis for opinion (paragraph 19) and the explicit statement of compliance with relevant ethical requirements (par.74-76).

Moreover, for the reasons that have been explained in other paragraphs (regarding other questions) and to avoid duplicities we believe that the description of the auditor’s responsibilities (according to our comments there will only remain one paragraph) should be included in the Basis for opinion section, as it is now in ISA 700.

**16. What are your views regarding the need for global consistency in auditor’s reports when ISAs are used?**

It is essential that there is consistency between all audit reports to ensure comparability and comprehension between reports for all users of the financial information and inspectionability for the audit oversight bodies.

**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?**

In our opinion it gives enough flexibility to accommodate national reporting requirements.

**18. In your view, are the IAASB’s suggested improvements appropriate for entities of all sizes and in both the public and the private sector? What considerations specific to audits of small and medium sized entities and public**



---

**sector entities should the IAASB further take into account in approaching its standard-setting proposals?**

As we have stated before, there should be a unique report model for all kind of entities. However, we would like to mention that ICAC has only competences regarding the oversight and regulation of private sector auditing.

Madrid, 9 october 2012