



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

Technical Director
IAASB
New York, USA

October 12, 2012

Subject: COMMENTS ON INVITATION TO COMMENT (ITC) 'IMPROVING THE AUDITOR'S REPORT'

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned ITC.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

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ICAP COMMENTS ON INVITATION TO COMMENT ‘IMPROVING THE AUDITOR’S REPORT’

Questions for Respondents

Question 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?

Response to Question 1

The new format is comprehensive, and enhances relevance and value of the auditor’s report. In most of the cases, auditors perform many of these value additions as part of the engagement, although not include the results in the audit report. Therefore, Extra costs in ensuring compliance or performing extra procedures are not likely to be high.

However, there is always the risk that few users of the report may misconstrue the additional information, especially the auditor’s commentary, as a modification of opinion. We believe that efforts should be made to present a balanced report, which is neither overly optimistic, nor pessimistic.

Question 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.

Response to Question 2

Due to the risk that additional information may be construed as modification of report, and taken negatively by some users, IAASB may consider that auditor’s commentary may be issued as a separate document from the audit report. The concept of providing additional information is to provide stakeholders with more information regarding management’s judgments, significant or unusual transactions, and other matters of significance to the user.

Audit commentary, as a separate document, will dilute the severity by which the negative assessments of the auditor may be perceived by the users.

Question 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? (See paragraphs 35–64.)

Response to Question 3

We agree that auditor’s commentary is an appropriate mechanism to provide more information to the users. However, the option to provide this commentary within the audit report or as a separate document may be contemplated.

Question 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? (See paragraphs 43–50.)

Response to Question 4

The premise, that auditor’s commentary would contain subjective information necessitates that it should not be standardized.

Question 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? (See paragraphs 58–61.)

Response to Question 5

In practice, it will be difficult for an auditor to decide which issues and related audit procedures and results are to be included in the auditor's commentary. The illustrative examples are comprehensive, however, it would aid the auditor if guidance on different scenarios is provided with the standard (when issued).

Question 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? (See paragraphs 38 and 62–64.)

Response to Question 6

A standardized commentary will take lesser time as compared to a commentary which differs from entity to entity. As auditor will be discussing key areas, his view on management's judgments and the audit processes along with results, where required, preparing the audit commentary will be time consuming.

Time constraint will be significant in cases of listed subsidiaries, which are material for consolidation purposes. The auditor of the parent company may have to wait for the issuance of auditor's commentary of a subsidiary, to examine if anything of significance needs to be incorporated in the commentary of the parent company.

Question 7

Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

Response to Question 7

We agree that auditor's commentary should be restricted to audits of Public Interest Entities. For other companies, it should be left to the discretion of the auditor whether the commentary is issued or not. Making it mandatory for all audits will unnecessarily increase costs of the audits.

Specific areas of concern may be standardized i.e. going concern, valuation of assets, and significant judgments, where auditors should be encouraged to give a commentary in all instances.

Question 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? (See paragraphs 24–34.)

Response to Question 8

It is better to give a clear statement of going concern assessment, and the examples provided are clear and comprehensive.

Question 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? (See paragraphs 30–31.)

Response to Question 9

We fully agree that such statements expressing how the auditor's judgment was decided and what "material" to auditors is, should be disclosed as this would increase auditors accountability with the resultant increase in users confidence in the report.

Question 10

What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)

Response to Question 10

We agree that auditor's statement in relation to other information will add value to the reader of the financial statements. However, giving this statement will require extra work, which will definitely raise costs. Further, management's discussions and analysis may contain future estimations, based on current results. An auditor's statement may be interpreted by the reader to be valid for future projections also, which should not be the case. We suggest that this part of the auditor's report should be further evaluated.

Question 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? (See paragraphs 81–86.)

Response to Question 11

We agree that the enhanced descriptions would be helpful to the user's understanding.

Question 12

What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

Response to Question 12

Name of engagement partner is disclosed in audit reports issued in Pakistan.

Question 13

What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80.)

Response to Question 13

Such a disclosure will add value to the report. It should be added in the audit report.

In Pakistan, few of the listed companies (usually public sector) are audited by joint-auditors. In these cases, two audit firms perform the audit engagement, and issue one audit report. The firms are jointly and severally liable for the audit. However, in practice, they divide components of the financial statements between the two firms for conducting detailed audit procedures. One audit report is issued, which is signed by both auditors. Disclosing the respective involvements in the audit report would definitely be of value in such cases.

Question 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? (See paragraphs 83–84.)

Response to Question 14

Most of the institutional investors, financial analysts and major investors are knowledgeable about such responsibilities. Therefore, relocating it to a separate annexure, or website will not be detrimental to the reader of the financial statements.

Question 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? (See paragraphs 17–20.)

Response to Question 15

We agree that the opinion and auditor's commentary will get prominence when placed at the beginning of the report.

Question 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? (See paragraphs 21–23 and 87–90.)

Response to Question 16

We agree that the 'building blocks' approach will be helpful to the jurisdictions where certain statements are to provided in audit report according to local laws.

Question 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? (See paragraph 17 and Appendix 4.)

Response to Question 17

We agree with the IAASB approach.

Question 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? (See paragraphs 91–95.)

Response to Question 18

The small and medium sized entities are usually closely held, and cost would exceed benefits to issue the improved audit report to them. The 'building block approach may be useful for these entities, where auditors will use their judgment to include the relevant parts in audit report, as required.