



Kreston International

A global network of independent accounting firms

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8 October 2012

Mr J Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York
NY 10017
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Dear Sir

**IMPROVING THE AUDITOR'S REPORT
KRESTON INTERNATIONAL RESPONSE TO THE INVITATION TO COMMENT ISSUED IN JUNE 2012**

Kreston International appreciates the opportunity to respond to the Invitation to Comment relating to Improving the Auditor's Report.

Kreston International Limited is a global network of independent accounting firms. Currently ranking as the 13th largest accounting network in the world, Kreston covers 98 countries with 600 offices providing a resource of over 19, 000 professional and support staff. Our member firms are involved in the audit of a range of businesses, from listed entities to SMEs and we have sought their input in preparing this response.

We support the desire to bring greater clarity and transparency to the audit report. This will assist in demonstrating the value provided by an independent audit and enhance the quality of communication with stakeholders. However, it is important that any changes are introduced in a proportionate manner that ensures the benefits obtained exceed the likely additional costs.

Detailed Comments

Our detailed responses to the request for specific comments are included in the Appendix.

If you have any questions please contact andrew.collier@kreston.com

Yours faithfully
For and on behalf of Kreston International

Andrew Collier
Director of Quality and Professional Standards

Appendix – Responses

Improving the Auditor's Report

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?

Relevance is enhanced and the report does have greater informational value although it will be difficult to ensure that everything that is relevant to users will be disclosed in the report. There is a possible significant cost to both the auditor and entity.

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.

Consideration could be given to enabling access to a wider range of relevant audit documentation and information online. This could enable users to gain a greater perspective on the depth and breadth of the audit process. This would need clear identification of who would be granted access to the information, the timing of access and consideration of liability issues. This would require significant input from investors.

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? (See paragraphs 35–64.)

The use of the Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report. However, there will be significant debate between auditors and entities about the matters to be included in the commentary.

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 matter to include in Auditor Commentary? (See paragraphs 43–50.)

Matters to be addressed in the Auditor Commentary should be left to the judgement of the auditor. Each audit is unique and the matters to be included in the commentary will therefore depend on the circumstances. If judgement is not used there is a more significant risk that the Auditor Commentary will become a standardised document which will limit the information available to users.

However, the preparation of the Auditor Commentary is likely to generate significant additional costs for both the entity and the auditors. As part of the auditors quality control and risk management processes the Auditor Commentary is likely to be subject to significant input from senior technical staff. Entity management and the Audit Committee will also expend significant time and effort in agreeing the matters to be included in Auditor Commentary and the form of the disclosure.

The reaction of markets to the inclusion of matters in the Auditor Commentary is currently unknown.

The hurdle point at which matters become relevant for inclusion in the Auditor Commentary will be an area for guidance to ensure a level of comparability between the information provided by different auditors. This will need the key decision criteria to be established.

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.)

The illustrative examples are helpful. However, they could benefit from being placed in the context of the auditor's original risk assessment.

The description of audit procedures are potentially of limited value as it is difficult to explain the full range of work performed in a brief report and users are mainly interested in the outcome of audit work and the judgements applied by both the entity and the auditor.



The involvement of other auditors' paragraph could be seen as reducing the clarity as to who is responsible for the group audit report. Better information would be provided by explaining the relevant audit issues arising in subsidiaries and how the group auditor has addressed these matters. This could include reference to the work of other auditors and how the group auditor has directed and assessed their work.

The time effort and expertise applied to the audit are not clearly communicated through the examples.

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.)

The inclusion of the Auditor Commentary has the potential to lengthen the reporting cycle. There will be significant time implications for both management and those charged with governance and this will have a cost implications for both the entity and the auditor. This will be the case especially for contentious and marginal issues.

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.)

Yes, outside of Public Interest Entities there is a generally a greater commonality between management, those charged with governance and users. In addition, to the auditor having the ability to include a commentary those charged with governance could request the inclusion of an auditor commentary.

The inclusion of an auditor commentary could be a significant additional cost for smaller public interest entities and it is unclear if the benefit would justify this additional work.

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? (See paragraphs 24–34.)

The value of the auditor statement in respect Going Concern is considered to be high. In this case the separation of responsibilities from the opinion may increase the expectation gap. The use of the Going Concern assumption paragraph needs to place greater emphasis on management responsibilities in respect of material uncertainties disclosures. The auditor can then report on the appropriateness and completeness of disclosure.

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.)

The initial identification of material uncertainties must rest with the entity. The auditor could then be in a position to report that no further 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? (See paragraphs 65–71.)

This work is already performed in some jurisdictions. The term "reading" could be seen as of limited value but a change in terminology would potentially extend the scope of the audit.



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? (See paragraphs 81–86.)

The description is helpful but the separation of responsibilities between management and those charged with governance needs to be more fully explained. This may vary between territories to reflect the different governance models applied.

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

This is perceived to be of limited value, entities are clients of the firm and not of the individual partner. In a complex large audit a variety of resources are applied to enable an audit opinion to be signed. There are territories where the audit report already signed in the name of the individual partner and an assessment should be made as to whether this has had an impact on audit quality.

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.)

This disclosure regarding the involvement of other auditors is appropriate. The Auditor Commentary should focus on the risks and judgements encountered in subsidiary entities.

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.)

This would be a sensible approach to enable the report to focus on the key audit issues.

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? (See paragraphs 17–20.)

The structure of the report gives emphasis to matters of most importance to users. There is a risk that the sections dealing with responsibilities will not be read by some users which may mean the expectation gap is not reduced.

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.)

Consistency in presentation would be of great benefit.

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.)

The mandating of the ordering of items would address the need for the need for consistency in the presentation of the report. It should be possible within the different elements of the report to make space for local requirements.

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.)

The proposals must be able to be applied proportionately across all sectors and sizes of entities. Public sector entities can vary greatly in size and complexity and it will be important to ensure that inappropriate burdens are not placed on entities.

In respect of SMEs it is important to ensure that the benefits of the proposals are not outweighed by the costs to entities and auditors.