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Gentlemen

Enhanced Auditor Reporting

Your article in the October 2012 Journal caused me some concern, especially the following statement: "There is a perception that auditor reporting is not meeting the information needs of financial statement users in a global business environment with increasingly complex financial reporting requirements."

The IAASB solution appears to be adding to the reporting requirements of auditors and the probability is that NZICA will fall in behind, as NZICA generally does.

I want to contribute my opinion mainly as an investor and as a trustee of a small superannuation fund, although I also work as an auditor on smaller issuers and listed entities.

My points are:

- The annual financial report is primarily a report from the directors to the shareholders. We should not forget that. For me, a good annual report contains all the information required to be disclosed by the Companies Act, FRA, standards and other relevant legislation, is accurate, reliable, clear and understandable.
- An auditor's primary task is to ensure that the annual financial report is a good annual report as defined above.
- In the event that the annual financial report is not a good report as defined above, the auditor's task is to persuade and convince the directors to change the report so that it becomes a good report.
- If the directors are unwilling or unable to change the annual financial report to become a good report, the auditor's report should say so, either by an emphasis of matter or a qualification.
- The auditor's report is understood to be a confirmation that the annual financial report is a good report as defined above.

"Users believe there is richer information about the entity...". As an investor, I expect to find all the important and relevant information contained in the annual financial report and I rely on the auditor's work to ensure it is so. Asking the auditor to add a commentary paragraph introduces some significant risks of creating confusion. It also begs the question as to why, if it is relevant, the information was not included in the annual financial report. Maybe that should be the focus of discussion.

"Research suggests that the emphasis of matter paragraph ... is equated with a qualification of the audit opinion." This could be because the investor expects a clean audit opinion to contain no extra comments. Has the IAASB considered that a commentary paragraph could very easily be equated with a qualification?

I wonder if the IAASB is really dealing with the important fundamental issues when the discussion involves the location of the opinion paragraph. It is not a difficult paragraph to find in an audit report.

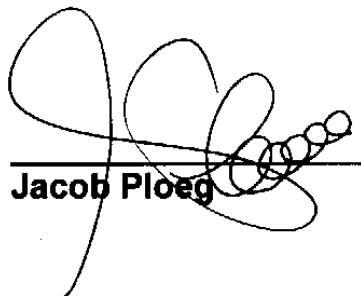
Adding the name of the engagement partner has doubtful value. As an investor, I am more interested in the name of the audit firm and I expect the professionalism and quality control standards within an audit firm to apply equally to all partners.

“IAASB has initially concluded that audit commentary should be required, at a minimum, for all listed entities.” NZ entities are generally smaller than the international giants that IFRS is designed for. Of the listed entities I work on as an auditor, one has an office staff of 1 partially qualified accountant. Another has no office staff at all because accounting work is undertaken on a part time basis by an employee of an accounting practice. Both these entities have a simple accounting system and it is not a large task for the auditor to sight invoices for all transactions during a financial year. It is difficult to envisage how, for these entities, a comments paragraph from the auditor would provide the shareholders with “richer information about the entity”.

For the reasons stated above, I believe that the current exception-based model is useful because:

- It places the focus of the readers on the annual financial report prepared by the directors, rather than the audit report.
- It focuses the work of the auditors on ensuring that the annual financial report contains all the information required to be disclosed by the Companies Act, FRA, standards and other relevant legislation, is accurate, reliable, clear and understandable.

Yours faithfully



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