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**Re: IAASB Invitation to Comment: Improving the Auditor's Report**

Referent:

Gerhard Prachner

Dear Mr. Gunn,

KWT<sup>1</sup> is pleased to provide you with its comments on the IAASB Invitation to Comment on Improving the Auditor's Report.

With the unfolding of the financial crisis, the audit profession is prepared to reassess its role and how it can enhance its contribution to the economy and to society. KWT fully supports initiatives that will lead to more user friendly, relevant and informative auditors' communication.

In this respect, we welcome this IAASB project as KWT believes that global solutions for auditor's reports are preferable and will benefit investors and other users. Furthermore, any such global solutions should be scalable to provide for the differing information needs of the users between different market segments. Transparency and comparability would suffer from regional or segmental divergences given the globalisation of markets and of the users of financial statements.

In the broader context of the European debate on audit policy, it has become even more urgent to review at an international level whether improvements can be made as to how auditors should best communicate with their stakeholders. KWT would encourage the IAASB to work promptly with the European Institutions in order to ensure that any proposed improvements are aligned on an

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<sup>1</sup> Kammer der Wirtschaftstreuhänder

international level: we seek a compatible solution between the European Commission's (EC) Proposals and ISA 700 improvements. Otherwise, we might end up with two different auditor's report, which would be very unfortunate.

Our main comments are summarized below:

1. The project of improving the auditor's report should be dealt together with a project on auditor's reporting as a whole. The auditor's reporting consists of reporting to the public in the auditor's report (ISA 700) and also of reporting to those charged with governance of the company (ISA 260). Therefore, due consideration should be given to how this reporting has to be inter-related. This IAASB invitation to comment focuses almost solely on public auditor's reporting, but KWT strongly believes that more can be done in the area of auditor's reporting internally to those charged with governance as well.
2. It is strategically important for the future of the audit profession to respond to stakeholder's need to provide information on the appropriateness of management's use of the going concern assumption. However, the key principle is that it is the responsibility of management and those charged with governance of an entity to provide the required information. The auditor's report paragraph on going concern should be based on the information provided by the audited entity itself. Having this principle in mind, KWT believes that there is an urgent need to think about expanding the financial reporting standards related to going concern reporting by management in order to meet, at least partly, the market needs. Therefore, we encourage the IAASB to initiate discussions with the International Accounting Standards Board (IASB) in order to coordinate such financial reporting enhancements.
3. Regarding the auditor's statement on other information, KWT believes that the requirements included in ISA 720 could be further extended to make the auditor's report more informative, comprehensive and exhaustive. Therefore, we propose that auditors should also report on the consistency of other information with the financial statements based on his or her knowledge and understanding of the entity and its environment.
4. KWT fully supports standardisation of the order in the auditor's report globally for which we recommend the IAASB to propose a principles-based structure. This would help the users navigate through the auditor's report as well as it will further enhance comparability.

For further information on this KWT letter, please contact us.

Yours sincerely,

Mag. Gerhard Marterbauer e.h.  
(Vorsitzender des Fachsenats für  
Unternehmensrecht und Revision)

  
Dr. Gerald Klement  
(Kammerdirektor)

## **Appendix: Responses to Questions**

### **Overall Considerations**

**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?**

KWT overall agrees with the project of the IAASB to enhance the relevance and informative value of auditor's reporting. KWT fully supports initiatives that will lead to having an auditor's report that is more user friendly, easier to understand and more informative.

The recent debate and development in the European Union have highlighted that there is a need to provide the public with more information about what an audit is and what the output of an audit is. It is the role of the profession to respond to the concerns expressed. It is also an important role of today's profession to provide comfort on the reliability of financial reporting: the auditor's report accompanies the entity's financial statements and the additional auditor reporting will help to add more credibility to those financial statements and to generate confidence in the audit.

But, the IAASB should be careful not to:

- Attribute management responsibilities to the auditor: Management has primary responsibility for providing relevant information in the financial statements. The auditor has a responsibility to audit those financial statements. It is the responsibility of management to disclose all required information in the financial statements, and this should not be blurred by any requirement for the auditor to take over such responsibility. All disclosures that relate to business model, business risks, choices for options for accounting policies, sensitivity analyses etc. should therefore be disclosed by the entity itself.
- Issues encountered with the current financial reporting framework should not be transferred to the auditor. In relation to some specific topics, financial reporting has become difficult to understand for users over the last few years. Nevertheless, it should not be the role of the auditor to navigate the users through the financial statements and provide a short form of the notes in the opinion.

The general support that KWT gives to the IAASB Invitation to Comment is subject to our comments below.

**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.**

As explained in Question 1, the proposals on auditor's communication should be supported to make it more practicable and useful and thus KWT is in favour of the initiatives of the IAASB. However, KWT believes that the IAASB should also consider the following in further detail: