



ORDEM DOS
REVISORES OFICIAIS
DE CONTAS

Integridade. Independência. Competência.

Subject: Improving the Auditor's Report Comment Letter **Lisbon, 26th October, 2012**

Dear Sirs,

Regarding the invitation to comment on IAASB's publication "**Improving the Auditor's Report**" the **Ordem dos Revisores Oficiais de Contas (OROC)** has the following remarks:

General Remarks

1. We acknowledge that the public view with respect to audit reporting is that it should be improved. We also acknowledge that this view has considerably been enhanced because of the recent audit and company failures and the economic outcome of the financial crisis.
2. As supporters of the general use of International Standards on Auditing (ISA) within several jurisdictions we feel that it is important that IAASB could find a global solution to respond to the public's call for change in this matter.
3. We strongly support that accounting standard setters should have a critical role to play in ensuring that the financial statements meets the financial needs of users and that auditor's should not replace management in giving original company information that could complete the picture of the company and its operations.
4. We also support that a revised audit report must be capable to be applied on a proportionate basis to all entities, therefore, that no specific audit report should be applicable only to Public Interest Entities (PIE's).

Particular Remarks

Illustration of a Possible Improved Auditor's Report

5. Regarding the illustration shown on pages 9 to 12 we agree with the opinion paragraph being shown at the beginning of the audit report, although such modification can induce users to stop reading the report after such paragraph.
6. Regarding entity specific matters by adding a Going Concern paragraph, an Auditor Commentary paragraph and an Other Information paragraph we have the following observations:

Going Concern

We are aware of the importance of going concern to users of financial statements and we generally support IAASB's view in including two separate paragraphs in the audit report to explain on one hand the management's responsibilities regarding going concern and on the other our view, based on the audit work performed under ISA 570, of such going concern. We believe this does not bring additional effort for the auditor. However, an explicit statement may induce users to think that we are concluding on future company viability, hence there is an

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increased risk with this kind of statement. In case of a company failure where the auditor did not mention any going concern issue in his audit report the public opinion already has a tendency to blame the auditor. With these kind of statements (in spite of the phrase where it says we cannot predict future events) such opinion will be increased. Nevertheless, we agree that going concern should be addressed in the audit report (additional value to users) and we cannot see a better way to do so than the way IAASB suggests.

Audit Commentary

Regarding the value of audit commentary we believe that this would be an area that users would clearly appreciate. In the general remarks we stated that auditors should not be required to replace management in the disclosure of original company information and its operations.

Regarding the illustration audit report we believe the first three paragraphs on *Outstanding litigation, Goodwill* and *Valuation of financial instruments* are what would be “Emphasis of Matter” paragraphs. The difference between them seems to be a more descriptive statement by the auditor of the specific cases and not a normal alert to the users to read the notes on the financial statements (ISA 706). A modification would be required if the auditor believes that such notes do not give a “clear picture” of the specific case (ISA 705). We believe this type of audit commentary may conflict with what is the work performed today under the above mentioned ISAs.

As for the paragraph about the involvement of other auditors we believe that such statement could bring confusion to users about the quality of the work performed and could be viewed as a way to limit the auditor’s responsibilities (in spite of the responsibility paragraph further explained).

In one hand there are views that an audit commentary would be useful if the auditor could explain which areas of the financial statements were considered to be more important by him and why in a general way (e.g, We performed extensive tests on the impairment of assets because the company has several equipment that is subject to 24 hour continuous labor or we performed extensive tests on revenue items because revenue increased/decreased significantly from the past year). This view states that this could help users in focusing in such important areas while reading the financial statements and help users understand the risk approach used by auditors. On the other hand we are not sure that this information will be actually more useful for users as the auditor should not lead users in the reading of the financial report except for matters that should be addressed as emphasis paragraphs or similar and, in addition, users may consider that other areas may have not conveniently be addressed by auditors and that is not the meaning of the proposed new information.



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Other Information

In Portugal, it is already local practice to include a “Report on other legal and regulatory issues” paragraph regarding the consistency of the management report with the audited financial statements. Therefore, we support the inclusion of such paragraph in the proposed Audit Report.

Disclosure of the name of the audit partner

It is also local practice in Portugal and we fully support that all audit reports should disclose (besides the audit firm) the name of the engagement partner.

Statement of compliance with relevant ethical requirements

It is also a local practice and we fully support the reference to compliance with ethical requirements in the audit report and also that the name of the local code of ethics should be referred to for additional information to users.

Responsibilities of Management and the Auditor

We support, in general, the increased explanatory paragraphs regarding management’s and auditor’s responsibilities that are shown in the illustrated audit report as we believe users will be better informed about such responsibilities. Nevertheless, we will still suggest that in the bullet regarding risks of material misstatement the second paragraph mentioning “the risk of not detecting...” could be eliminated from our point of view.

Conclusion

As above mentioned, OROC fully supports the need for an improved audit report covering, in one hand, improved explanations of responsibilities and new disclosures regarding the audit and on the other hand we believe that an auditor’s commentary on the areas we consider most important could to some extent increase value for users of the financial statements.

Kind regards

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