

October 07, 2012

Mr. James Gunn
Technical Director, IAASB
International Federation of Accountants
529 Fifth Avenue, 6th floor
New York, NY 10017

Re: Submitting Comments: IAASB Consultation Paper 'Improving the Auditor's Report'

Mr. Gunn:

First, let me commend IAASB for coming out with much-needed, thorough and thought-provoking, consultation paper, particularly the well-drafted inclusive and informative auditor commentary. Also, I extend my sincere thanks for allowing opportunity to offer comments on the same.

I believe the possible improved auditor's report maintaining global consistency and national flexibility, would be able, to a substantial extent, to meet needs of varied stakeholder groups.

And, of course, there remains some scope for further improvement; and I wish to offer responses on some of the listed questions, as below:

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 the possible impediments (including costs)?**

Though not sure to answer precisely in terms of sufficiency, yet, I believe these, to a significant extent, are surely able to enhance relevance and informational value, particularly because of inclusion of auditor commentary adding informational value and demystifying the role of financial statements auditing.

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 ?**

Yes, obviously, this concept would add informational value to various reader groups. Particularly, segregating the management's association with preparation and presentation of financial information and the auditor's opining role would help narrow the expectation gap. Aside, inclusion of paragraphs such as 'Audit Strategy' and 'Other Information' would clarify the role and responsibilities of financial statement auditing.

- 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?**

Though, the option of leaving matters to be addressed in Auditor Commentary to auditor's judgment may have its own merits. Yet, as I believe, it also has its own demerits such as loss of global consistency, and in some cases, possible loss of informational value. Suggestively, as an alternative, topics typically applicable to most entities such as 'Audit Strategy for Significant Items', 'Involvement of Other Auditors', 'Other Information' and 'Respective Responsibilities of Management, TCWG and the Auditor', could be mandated for inclusion preserving global consistency and maintaining informational value. However, to avoid information overload and also to provide sufficient auditor leeway, suitable guidance through ISAs/NSSs on inclusion of other matters- audit or jurisdiction specific- could be an appropriate option to be considered.

- 5. Do the illustrated 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?**

Of course, illustrative examples are relevant and are able to cater the information needs of users. Yet, as I believe, in practical life situations there are sometimes instances of uncertainties impeding auditor decision making process, and greater clarity is needed from auditing. Inclusion, therefore, of few of such other topics would help add information value of the commentary. Such paragraph, for example, may include,

Material Uncertainties: Owing to uncertainties of auditing environment or sometimes lack of objective guidance (prescriptive or indicative), sufficient appropriate evidence for validation of management's assessment / estimates/assumptions are inexistent for auditor, and auditor decision making process is impeded. And, owing to involvement of significant amount of subjectivity, management and auditor might not be at consensus at their views/ evaluations; and effect thereof is not ascertainable in precise terms. For example, penalties and claims not acknowledged as debt by management. Another example could be, long pending unreconciled accounts, the effect of those is not quantifiable. Inclusion, of course, of a separate paragraph on such matters subject to material uncertainties could help preserve informational value of report narrowing the expectation gap.

- 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?**

Of course, it would be relatively more meaningful for stakeholders of PIEs. Yet, as I believe, there are many other entities, though not PIEs/listed, large in terms of borrowings / revenues, and the stakeholders interested in such entities might be lenders, creditors, tax authorities and others. In view of this, I believe providing Auditor Commentary for such entities also would add informational value to such stakeholders. Moreover, leaving it solely to auditor discretion might result in global inconsistencies. Suggestively, as one of other possible criteria, concept of 'Corporate (borrowers having credit limit in excess of certain threshold limit) as used in Basel norms, could be one such option to be explored, besides PIEs.

Simultaneously, however, I am mindful that any improved auditor reporting should not result in increased auditor reporting as it might have effect of over reporting or may result in impediment (cost) effects. With this in mind, I believe that the improved auditor's report should be applicable for group or entity-level financial statement audits and not for other audits such as branch audits, which are primarily meant for use of entity's group / central auditors.

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 user's 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?**

I believe this would help educate a large section of stakeholders which would be better able to understand the various roles associated with financial information. Moreover, as I believe, suggestively, inclusion of a 'Limitations' paragraph would help educate readers about the technical limitations of auditor's assurance role. For example, this paragraph would help demystify the financial statement auditor's role in detection of frauds, compliance of laws and regulations, governance norms and adherence of internal control systems etc.

Form and Structure

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?

I believe mandating ordering of some typical / common topics, for example, 'Audit Strategy for Significant Items', 'Involvement of Other Auditors', 'Other Information' and 'Respective Responsibilities of Management, TCWG and the Auditor' would help maintain global consistency. However, to provide national flexibility, suitable guidance on number and other topics of Auditor Commentary could be provided by ISAs/ national standard setters or could be left for auditor judgment for some entities such as SMEs.

Views expressed herein are personal. I hope these suggestions could help support IAASB's efforts of improving auditor reporting.

I welcome the opportunity to discuss, if needed by the board, the comments; and I would be honored to assist the Board in initiatives that impact the quality of auditor reporting.

Submitted with due respect,

Sincerely,

Ishwar Chandra
FCA, DISA (ICAI), CISA