

International Federation of accountants

International Auditing and Assurance Standards Board

Mr. James Gunn, IAASB Technical Director at jamesgunn@iaasb.org.

October 08, 2012

Dear Sirs,

In pursuance of your kind invitation to comment on the IAASB suggestions to improve auditor reporting I would like to present below certain comments on the issues included in your Invitation to Comment.

№	Question	Comments
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?	Some of the suggestions really improve informational value of the auditor's report. But in general the suggested format and structure of the document makes it illogical and too «heavy» for understanding (see p.15 below).References to other parts of the auditor's report also look improperly. The structure of the document should be fulfilled more carefully.
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.	Other alternative may include, for example, dividing auditor's report into two parts – the first one – short with definite wordings (declaration on the conduction of audit, content of the audited financial statement, basis for opinion, opinion, report on other requirements) and the second part which includes responsibilities of management, TCWG and the auditor, going concern, auditor's comments, other information etc.
	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.)	Yes, it is no need to separate Emphasis of Matter and Other Matter paragraphs. The concept of Auditor Commentary let widen information and balance user' needs in additional information with those auditors use while forming their reports.
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? ¹ (See paragraphs 43–50.)	These matters may be left to the judgment of the auditor, but guidance in the standards should be more severe. In spite of the fact, mentioned in paragraph 50, that Auditor Commentary must not substitute modification of opinion such a risk exists. In addition there appear a risk of inclusion of excessive points and details into this section. Costs of audit and hours will also increase.
5.	Do the illustrative examples of Auditor Commentary ² 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.)	Including a description of audit procedures the illustrative examples seems unnecessary as matters which concern audit technique could ever be helpful for users. The most important matter of that kind is audit materiality. But it seems not rational to include this matter as may increase expectations gap. There could really be some matters related to the audit to include into of Auditor Commentary except for audit technique. Some of such matters are now included into ISA 706.

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.)	Financial reporting process will take more time and become more expensive.
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.)	Now ISAs requires mandatory inclusion of EOM or OM paragraphs for any kind of entity. There is no reason to decline this concept. So criteria for inclusion Auditor Commentary for PIE and non-PIE should be the same.
	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.)	It is already well known that IFRS have pro-cyclical effect. There are rather many entities especially during the crisis for which material uncertainties may be identified. But the most part of such entities could survive and develop their business successfully. Including separate information on the factors of material uncertainties in addition to other responsibilities of the auditor while forming his opinion may worsen their position, become a mean of competition and strengthen pro-cyclical influence.
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 concept of material uncertainties is unclear and judgmental. Judgments on possible influence of some events or conditions and disclosure of those factors could threaten abilities of the entities to survive and even impose liquidation. See p.8 above.
10.	What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)	It could narrow expectations gap.
	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.)	It could really narrow expectations gap but the impression from such a long standardized material would depend on the place where it is included into the document. See also p.14 below.
12.	What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)	This suggestion seems to be reasonable. It would strengthen personal responsibility of the partner for the report. Here in Russia it is obligatory according to local legislation
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–	This suggestion seems to be reasonable but only according to Option 3 and using percentage of assets/revenue (expense) and should be included in all relevant circumstances.

	80.)	
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.)	The place of that material in the illustration of possible improved auditor's report seems illogical and the material should be reallocated. See also p.2 above.
	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.)	Suggested structure of the illustrative report seems illogical. Auditor's opinion should not be placed before statement on the conduction of the audit. For reports with modified opinion the suggested structure would seem much more strange. Responsibilities of management, TCWG and auditor in the end of the document looks strange too.
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.)	Suggested improvements demonstrate a rather good way of balancing regarding the need for global consistency with national auditing standards and NSS needs.
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.)	Ordering of items should be mandatory unless law or regulation require otherwise. But it should not be items in a manner similar to that shown in the illustrative report: it should become more logically based.
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 form and structure of the auditor's report must be the same for entities of any type.

Hope the comments above will be instrumental for improving the ISAs.

Best regards,

Vera F. Massarygina
 PhD (Economics)
 Russia
 Moscow
 Institute of Professional Auditors
 Committee on standards, Chairman
mvfmvf3@yandex.ru
ipar@e-ipar.ru

