



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No 15 of 1965)

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Prof. Arnold Schilder
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Sir,

Re Exposure Draft on Improving Auditor's Reporting.

INTRODUCTION

The Institute of Chartered Accountants of Nigeria (ICAN) was established in 1965 by the Act of Parliament no. 15, which gives it the responsibility to determine what standards of knowledge and skill are to be attained by persons seeking to become members of the accountancy profession and raising such standards from time to time as circumstances may require.

With its current membership both at the Fellowship and Associate levels working across various sectors of the Nigerian economy, the Institute remains a major stakeholder in the development of the accountancy profession in Nigeria and will continue to make its contributions towards the wider development of the accountancy profession worldwide.

The Institute would like to commend the IAASB for this latest work on Improving Auditor's Reporting as a means to increase the usefulness of the auditors' report. The Institute notes that this is coming at a time when users of financial statements have continued to demand greater transparency in the preparation, presentation and disclosure of information in the financial statements. It also notes the imperatives for the review of the current auditors' reporting; not least is the increasing complexity of the financial reporting standards both for the private and public sectors all of which are producing information that presents challenges to some users to navigate.

The Institute is pleased to submit its comments on the current IAASB's Exposure Draft (ED) on "Improving the Auditor's Reporting".

The Institute's comments are focused on specific areas required for comments by IAASB and are set out below. Where the Institute agrees with the improvements set out by the IAASB under each of the areas commented upon, it has affirmed that and where appropriate, it has also made additional comments in support of its affirmation. However, where the Institute disagrees, it has also clearly indicated that and has provided its underlying reason for the disagreement. Cases where the Institute agrees but feels more should be done to improve the particular area it has also provided its comments appropriately.

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 possible impediments (including costs)? Why or why not?

The Institute agrees with the IAASB's suggested improvements as these have potential to improve the general perception of and will enhance the relevance and informational value of the auditor's report. The Institute values the auditor's commentary but is concerned that where this is left at the discretion of the auditors, the usefulness of this important requirement may be less profound. The Institute would therefore, prefer the IAASB to set out what should be the matters on which auditors should place emphasis in this section of the auditor commentary so that such matters would be mandatorily covered under the appropriate headings. Optional commentary would not in our opinion likely to achieve the desired effect of the requirement.

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.

The emergence of IFRS as the main financial reporting platform that have been adopted by more than one hundred countries across the world continues to demonstrate the general acceptance of IFRS. The Institute notes the emerging trend in financial reporting where some entities in some jurisdictions have adopted a presentation of two comparative periods (instead of one per IAS 1-Presentation of Financial Statement) accompanying current year in their financial statements. We find this development very informative and given the extended advantage that this provides, as it gives immediate assessment of three financial years, IAASB should influence and encourage the IASB to accommodate this new development to be part of the requirements in financial reporting. While this will impact on the work of the auditor, it is likely to contribute to the informational value of the financial statements and to add credibility in the financial statements audited by the auditors.

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?

The Institute believes that the concept of Auditor Commentary that is being proposed would provide some additional information to investors about the entity particularly, where such commentary is directed towards providing information on issues such as the general management of risk in the entity, critical accounting estimates and key judgments, information on IFRS that have become effective but the entity has not yet adopted and possibly, the effect on the financial statements when the entity adopts the new standard(s) .

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?

In addition to our comments in 1 above, the Institute believes that the IAASB should identify specific areas that would require auditor commentary and making such commentary mandatory (following guidance) for significant public interest and optional for other public interest entities given the involvement of wider users' interests in their financial statements.

5. Do the illustrative 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?

In the Institute's opinion, the illustrative examples have informational and decision making value users seek in the financial statements. The various illustrative examples are likely to be applicable to substantial number of entities particularly those listed on stock exchanges. It is the Institute's opinion that specific matters be identified for commentary by auditors for significant public entities but such made optional for other public interest entities. Further, the auditor's commentary should include description of the related procedures and result. The Institute believes that with the description and the result from the procedure followed, there could be added informational value to the audit opinion in the financial statements.

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?.

Auditor commentary would seem to be a new phenomenon among the various responsibilities of the auditors. Currently, most of the auditor's responsibilities are contained in their national laws and therefore, have legal backing which could be enforceable. Further, some standards setting bodies in most jurisdictions have also aligned their enforcement capability both with the provisions of the financial reporting standards and with their local laws. The IAASB would need to work with local standards setting bodies to ensure that auditor commentary made mandatory is supported not only by the local standards setting bodies but also should be made to

form integral part of the local law. This will ensure that management is made aware of the requirement to provide the required information upon which the auditor would comment. This provision in the local laws would not only be required to ensure that the directors are made aware of the need to make such information available to the auditor but also ensure that this new role becomes an embedded duties of the auditors, management and those charged with governance.

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?

The Institute agrees that auditor commentary should be made mandatory (with guidance) to auditors of significant public interest entities but made optional for those of other public interest entities. As noted in 1 above, the IAASB would need to identify areas for auditor commentary on the financial statements to ensure particular attention is paid to those areas by the generality of entities required to comply with the new auditor commentary requirement. This is particularly important given the frequency of amendments to financial reporting that would need the attention of standard setting bodies to incorporate new changes instead of leaving such to the various jurisdictions to adopt the pattern and areas of their auditor commentary which is not likely to produce consistency in areas being commented upon.

Going Concern/ Other Information

8. What are your views on the value and impediments of the suggested auditor statement 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?

The Institute believes that auditor's statement relating to the appropriateness of management's assumption on the entity's going concern would have the potential to add value to auditor's opinion and enhance the credibility of the financial statements. The Institute also believes that the revised illustrative description of management responsibilities with respect to going concern particularly, with the reference made to the requirement of IFRS on going concern, auditor's conclusion on the appropriateness of management assumptions and the statement on whether material uncertainties related to going concern have been identified. Further, this would provide useful information to users of the financial statements and this proposal is supported by the Institute. However, the Institute hopes that national standards setting bodies would include this new proposal in their local laws to ensure enforcement of this proposal when it becomes a standard audit requirement to minimise or eliminate impediments to application of this requirement.

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?

Given the importance attached to auditor's work on assumptions made by management in their assessment of their entity's going concern, the Institute believes that the provision of additional information to support auditor's judgment and processes taken to support their conclusion of the absence of material uncertainties should be encouraged as this would enhance users assessment of the auditor's judgment.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

The Institute believes that auditor statement in relation to other information reviewed by him as part of his financial statements audit would provide readers of the financial statements the knowledge of extended scope of work that are usually carried out by the auditors but subsumed in the auditors working papers. This information, if made available to users of financial statement, would provide useful information to users in their assessment of value added to the financial statements by the 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 auditors responsibilities?

The Institute believes that extended description of management responsibilities, those charged with governance and that of the auditor would provide users of the financial statements clearly defined responsibilities. However, the Institute does not believe that the proposed section under which these responsibilities are to be set out in the auditor report would have the immediate impact compared to where these responsibilities are set out early enough in the auditor report. The Institute therefore, supports setting out the responsibilities early in the auditor's report.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

The Institute does not believe that inclusion of the identity of the audit engagement partner would add value to the audit report given that in some jurisdictions, there is a requirement in their local corporate laws to disclose the identity of the competent auditor or statutory auditor responsible for signing the auditor's report on behalf of their firm. It is the view of the Institute that the outcome of the various audit procedures undertaken would lead to the production of the final audit report and for the competent or statutory auditor this are prima facie evidence that the needed audit

work has been carried out and it is the Institute's believe that users are more likely to find comfort on statutory auditor signature and not the engagement partner.

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?

This Institute believes that the requirement to disclose the involvement of other auditors has been in place in some jurisdictions but the extent of their involvement in the audit work of the entity is always not detailed in the report. The Institute does not believe that the inclusion of the detailed work conducted by other auditors in respect of financial statements audited and signed by a competent or statutory auditor would add any value to the auditor's report.

14. What are your views on explicitly allowing the standardised 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?

The Institute would not support the views to explicitly allow the standardised material describing the auditor's responsibility to be relocated to a website. It's the view of the Institute that where the financial statements of the entity has been placed on the website, it should also contain the same information as those in the printed version of the financial statements.

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?

The Institute agrees with the proposed structure and the justification put forward by the IAASB. However, the Institute is concerned for the placement of the Auditor's opinion as the first paragraph. While the justification sounds convincing, the Institute's concern is that giving the "verdict" (opinion) at the very beginning of the report, may lead to readers of the report (or listeners where the auditor is reading the report at an AGM, for instance) to lose interest in the remaining contents of the report, which are equally significant in order to have a complete understanding of the auditor's conclusion. The Institute is of the view that the basis for opinion, commentary, etc laying the background for the opinion should come first in order to sustain reader's attention and interest.

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?

The Institute believes that there is indeed the need for consistency in auditor's reports globally to enhance users' understanding of the report, irrespective of national boundaries. Once the structure and contents of auditors' report are guided by ISAs, it should not be too difficult to accommodate national circumstances or industry – specific issues.

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?

The Institute supports proposed ordering of items in the auditor's report by IAASB, subject to our comment in para. 15 above on the positioning of the auditors' opinion. The Institute believes that the proposed ordering of items in the auditor's report would ensure consistency that users desire. However, a paragraph may be introduced to accommodate matters required by national laws or practices. This way, if reports are compared, the only difference would be the contents in the one paragraph for national requirements.

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public private sectors? What considerations specific to audits or small-and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?

The Institute believes that the extended auditor's report as proposed by the IAASB would not likely be appropriate for Small and Medium Sized Entities (SMEs). Given the continuing controversy in different jurisdictions of the definition of SMEs that vary between jurisdictions, if SMEs were required to apply ISAs, the application would not be consistent across various jurisdictions. There may therefore, be the need to draw up separate reporting requirements for SMEs.

Application of the Auditor Commentary in the public sector would indeed be appropriate for Government Business Entities (GBEs) that are also required to apply IFRS in most jurisdictions and whose financial statements are audited to comply with the requirements of ISAs. However, the Institute believes that a wider consultation would be required with the various institutions in the public sector to ensure appropriate areas to comment upon are agreed and should be widely applied for consistency across jurisdictions.

Thanks
Yours faithfully



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Secretary, Technical, Research and Public Policy Committee
and Director, Research & Technical Directorate.