

16 September 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th floor
New York, New York 10017
USA

Via website: www.iaasb.org

Dear Sir/ Madam,

Consultation Paper - Enhancing the value of auditor reporting: Exploring options for change

Thank you for providing us with the opportunity to provide comment on the Consultation Paper: Enhancing the value of auditor reporting: Exploring options for change (**Consultation Paper**) issued in May 2011. We understand that the International Auditing and Assurance Standards Board is keen to obtain the views of a wide range of stakeholders and has encouraged international contributions to this debate. We are pleased to provide comments on a number of questions included in the Consultation Paper.

The Australian Institute of Company Directors (**Company Directors**) is the second largest member-based director association worldwide, with over 30,000 individual members from a wide range of corporations; publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

As directors are ultimately responsible for the company's financial reports and for the audit process, Company Directors is interested to ensure that auditor reporting continues to be of a high standard and that the audit regulation framework in Australia and internationally strikes the appropriate balance between business efficiency and regulatory compliance.

Below are our responses to the questions posed in the Consultation Paper.

1. Issues Identified

Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

The audit report is the key communication tool of the auditor in expressing his opinion on the financial report. The value attached to the audit report by the users of the financial report is symbolic of the assurance that an audit provides, that the financial report is free from material misstatement either as a result of fraud or error.

The audit report is the external representation of the auditor having applied their experience and resources to reach a level of confidence and give an opinion on the financial report. In the performance of the audit, the auditor provides detailed information to the company on the audit findings, which is used as the basis of their audit opinion.

With respect to the information gap and the examples included in paragraph 23 of the Consultation paper, as examples of types of additional information that the auditor could report on, much of this information is already provided by the company and requiring the auditor to provide a separate report hereon, may not lessen the information gap.

If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

The expectation gap and information gap that has been highlighted in the Consultation Paper will always exist. Increasing the length or information contained in the audit report may not materially narrow these gaps. The education of users of financial reports as to the role and responsibilities of the auditor and the inherent limitations of the audit process may over time narrow the expectation and information gaps in more meaningful ways.

Over time the audit report was amended to include statements that identified the responsibilities of the directors and those of the auditors in the preparation and review of the financial information. The audit report also contains a statement that the system of internal controls is the responsibility of the directors, however the provision of this information has not shown to have significantly reduced the expectation and information gap. Significant change to the audit processes and the nature of the audit report was introduced into US legislation via the Sarbanes-Oxley Act. Despite those changes, the perception of an expectation gap still exists.

Company Directors do not believe that making changes to the content or structure of the audit report will have a significant impact on both the expectation gap and information gap; any changes to the audit report structure should be the result of stringent analysis and should only be made if they demonstratively result in enhancing the value of the audit report.

Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

Company Directors believe that should any changes to the audit report be envisaged that these should be consistently applied across all entities, to ensure that users of financial information are not required to have a varying understanding of entities' audit reports.

2. Exploring options for change

A. Format and structure of the Standard Auditor's Report

Respondents are asked for their reactions to the options for change regarding the structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's reporting in the way outlined in Appendix 1 of this Consultation Paper?

When considering a change to the structure of the audit report, there needs to be a compelling reason to make the change, as any minor changes may have the unintended consequence of diminishing the intrinsic value of the audit report.

If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

There is a risk that should elements of the audit report be positioned outside of the main body of the audit report, for example as an appendix or linked to a website external to the report, that their relevance and importance in detailing the roles and responsibilities of management and the auditors in the financial reporting process may be diminished or even lost. Over time this may have the consequence of unintentionally broadening the expectation gap, as users may not as frequently access this additional information.

Two potential additions to the audit report may be to provide a paragraph focussing on materiality as it is a key consideration of the auditor in developing the audit procedures and on which the audit opinion is based. Secondly, a paragraph detailing the auditor's responsibilities as set out in ISA 720, *The Auditor's Responsibility Relating to Other Information in Documents Containing Audited Financial Statements (ISA720)*.

Company Directors believe that inclusion of this information may enhance the value of the audit report and provide useful information to the users.

B. Other information in Documents containing Audited Financial Statements

Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

Company Directors believe that the inclusion of a statement regarding the auditor's responsibilities with respect to other information included in documents containing the audited financial statements may address some aspects of the expectation gap and provide a clearer basis of understanding for users as to whom is responsible for the preparation and review of such additional information and the level of reliance that can be placed thereon.

If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to this information?

A generic statement detailing the auditors responsibilities with respect to additional information that is included in the annual report, could be helpful in closing the expectation gap, as it would clearly highlight that this information is the responsibility of the company, and that the auditors' responsibility is to review the other information included in the document containing the financial report, to ensure that there are no material inconsistencies between this information and the information included in the financial report.

ISA 720 para 8 -16 already provides guidance as to what the appropriate responses and possible amendments to the audit report are, there is no need to extend the audit report beyond this.

C. Auditor commentary on Matters Significant to Users' Understanding of the Audited Financial Statements or of the Audit

Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

Company Directors believe that it is not appropriate for the auditor to provide their thoughts on the business of their client in the auditor's report and that disclosure of such information would be outside the scope of the audit.

The audit process also allows the auditors to express their thoughts and observations of the company through their reporting to the board and audit committee of the company. Should the auditors not be satisfied with the results of the audit or the company has not adequately addressed the issues raised; they have the Opinion and Emphasis of Matter sections of the audit report to communicate this with users.

Auditors are required in terms of ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to have a knowledge and understanding of the company's business, which enables them to develop an audit process and to express an appropriate audit opinion. Should auditors be provided with a platform to express their impressions of a company, this may result in diminishing the value of an audit and blur the separate responsibilities of the company, its board and their auditors.

There is a risk that it may create an additional liability burden on directors, and or auditors, when such information is relied upon by users.

Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.

The example included in the Consultation Paper of the auditor's discussion of the assessments made by the company, appears to be a repetition of the accounting policy note, "Application of critical accounting policies and estimates".

There is no value to be added to the audit report by repeating information that the company is disclosing elsewhere. Should there, in the view of the auditor, be significant deficiencies in the judgements and estimates made by the company then the auditors would be required to either qualify the audit report or draw attention to these deficiencies by using the Emphasis of Matters or Adverse Opinion sections of the audit report. The primary responsibility rests with the directors to include appropriate disclosure having regard to the users of the financial information.

Company Directors do not believe that repeating information that is already included in notes to the financial statement in the audit report would narrow the information gap.

In Australia, under section 250PA of the Corporations Act, members of a listed company may submit written questions to the auditors of the company up to 15 days prior to the Annual General Meeting (AGM). The questions should be relevant to the content of the audit report or conduct of the audit of the annual financial report. The auditor is provided with an opportunity at the AGM to respond to the written questions and further questions posed by the members. (See section 250T of the Corporations Act)

Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

Company Directors believe that, although the auditor's are required to have a knowledge and understanding of the business of the company for them to plan and execute their audit, observations they may have, would be limited by the nature of the financial statement audit and the process for preparing financial statements. Although auditors may have observations, it is appropriate for them to address these observations to those charged with governance. A public auditors' report that included such comment would itself need considerable discussion to enable the comments to be put in the correct context. Should this information be provided, it may blur the role and responsibilities of the auditor, and significantly step them outside of the scope of the audit. Strong empirical evidence of the benefits would be needed before such commentary was required.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate reporting, as described in Section III Part D.

Company Directors do not believe that audit assurance of corporate governance disclosures is required. These disclosures are the responsibility of the directors of the company, there is no indication that the provision of an auditors' assurance of these reports would significantly alter the reliance placed thereon.

Should auditors be required to audit the corporate governance disclosures of a company, then this would require in the development of new auditing standards, the need for auditors to get and maintain specific corporate governance expertise, and would increase the audit cost to a company, without providing significant benefit.

To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example by those responsible for regulating the financial reporting process?

As corporate governance requirements differ around the world, there would need to be a push towards global convergence, which is a massive task given cultural differences. Company Directors do not believe there would be significant benefits that would stem from such convergence that would warrant such an undertaking. Furthermore this area is not one that is within the skill base, expertise or competency of auditors.

Do respondents believe assurance by the auditor on a report issued by those charged with governance is appropriate?

Company Directors do not believe that it is appropriate or necessary for the auditor to report on governance issues. The corporate governance disclosures that are prepared by companies are the responsibility of the company and its board to express in a way that is relevant to their business and their compliance with such codes. It would be a significant expansion of the auditors' responsibility to produce such a report and would require the application of different skills to those necessary for an audit of financial reports. This is the fundamental basis of the "if not, why not" or "comply or explain" approach to corporate governance disclosure which is well established and regarded by global markets. Consideration of such an expansion of the auditors' role should only be considered after detailed empirical analysis and consideration of cost/ benefit analysis.

E. Other Assurance or Related Services on Information Not within the Current Scope of the Financial Statement Audit

Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

Company Directors do not believe that there is significant benefit to the extension of the auditors' responsibility to address the issues discussed in Section III Part E. We believe that the auditors providing such information would potentially blur the responsibilities of the auditors and the directors of the company, given that the board of a company would be best placed to provide such information to the users of their financial report.

What actions are necessary to influence further development of such assurance or related services?

As Company Directors do not believe that it is necessary to extend the auditors' responsibility as discussed above, we do not believe that any further development or work is required hereon.

3. Implications of Change and Potential Implementation Challenges

Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

Company Directors believe that in identifying options to enhance the usefulness of auditor reporting, changes should only be made where there is a clearly identified deficiency in the information currently provided.

We agree that there is value in including a statement clarifying the auditors' responsibilities with regards to other information in documents containing the audited financial statements in the audit report.

We also agree that providing information on materiality and how materiality is determined and used by the auditor in the audit process, would go a long way in narrowing the expectation gap.

Company Directors do not believe there is significant benefit to be obtained from extending the scope of the audit to cover corporate governance issues.

Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entities? If not, please explain how they may differ.

Company Directors believe that the increased audit costs that would be associated with the extension of the audit scope to include the assurance corporate governance disclosure for any type of entity would outweigh the benefits that would be achieved in obtaining such assurance.

Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

No additional comments, other than to again suggest that a focus on expending limited resources on education and clarification of the existing roles and responsibilities of auditors would be far more rewarding in reducing the expectation gap than trying to expand the remit of auditors into new areas, which are not within their expertise.

Are there other suggestions for change to auditor reporting to narrow the "information gap" perceived by users or to improve the communicative value of the auditor's report?

Company Directors believe that directors have an understanding of the role of the audit process, education needs to be extended to the users of financial reports to develop a deeper understanding of the role and responsibilities of the auditor, no changes to the audit report, should be considered without addressing the "education of users" element.

We hope that our comments will be of assistance to you. If you are interested in any of our views please do not hesitate to contact me on +61 3 8248 6600.

Yours sincerely,



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General Manager Policy