

16 September 2011

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear James,

**IAASB Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change***

Thank you for the opportunity to comment on this Consultation Paper. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment. The NZAuASB is supportive of this project to enhance the value of auditor reporting and reduce the audit expectations gap and believe that such a project is timely given the growing need for assurance over additional information reported by the entity.

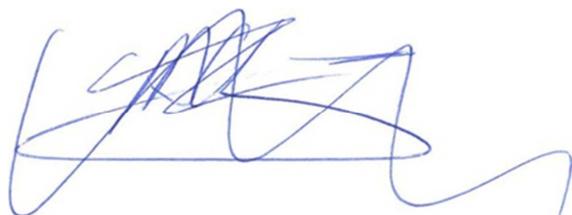
However, any improvements in auditor reporting should not blur the accountability of those charged with governance and the responsibilities of the auditor. We caution that changes to auditor reporting should not try to stretch the fundamental objective of an audit engagement beyond its purpose.

We support the view that auditors are responsible for expressing an opinion on the historical financial statements as a whole, and that it is the role of those charged with governance to fill any information gap. For this reason, we recommend that the auditor only report on information already provided by those charged with governance.

The NZAuASB's responses to the specific questions raised in the Consultation Paper are attached.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,



**Neil Cherry**  
**Chairman – New Zealand Auditing and Assurance standards Board**  
Email: [neil.cherry@xrb.govt.nz](mailto:neil.cherry@xrb.govt.nz)

## Submission of the New Zealand Auditing and Assurance Standard Board

### Consultation Paper Enhancing the Value of Auditor Reporting: Exploring Options for Change

#### I Schedule of Responses to the IAASB's Specific Questions

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

###### **Response:**

The NZAuASB supports steps taken to enhance the quality, relevance and value of auditor reporting and steps to reduce the audit expectations gap which continues to exist, but emphasise that this should be done within the context of an appropriate assurance framework.

The NZAuASB is largely indifferent to changes to the structure or wording of the auditor's report, and note that re-positioning information, or moving information outside the report is not seen to be particularly helpful. We note that many issues debated in the consultation paper were not raised in periods of economic prosperity, and question whether the Global Financial Crises is the right catalyst to prompt changes to the audit report. We are not convinced that the suggestions in the consultation paper will necessarily reduce the expectation gap.

The nature of auditing is not widely understood by users of audit reports and we suggest that changing the standard audit report will not by itself close this gap. We recommend that widely accessible information on the nature of auditing should be provided through more general communications which could then be referred to in the audit report in addition to exploring other means to educate the public.

Addressing any perceived "information gap" is a separate, although related, issue. Although some external stakeholders have identified that they do want more information, there is no consistency about what information is required and by whom this gap should be filled. There is therefore a risk of imposing additional cost for a minority of users.

Of most concern to the NZAuASB is whether the onus to provide further information should be aimed at those charged with governance or management rather than at the auditor. We question the appropriateness of the auditor originating information about the entity for users that would undermine the importance of the division of responsibility between the entity and its independent auditor. We are therefore alarmed by the blurring of accountabilities and additional responsibility that could be placed on the auditor if these issues are to be addressed to "enhance" the value of auditor reporting.

We believe that the purpose of an audit engagement and the resulting audit report is to express an opinion on whether the financial statements as a whole are prepared in accordance with the applicable financial framework, and whether the financial statements provide a fair and true view of the entity's financial position, performance and cash flow.

We are concerned that the discussion points raised are trying to meet additional needs, not intended to be addressed by an audit engagement. When considering the audit report, we recommend clearly defining the role of the audit, recognising that it does have its limitations, but not trying to stretch the engagement beyond its defined role. There may be some users that want or expect more from an audit. This may indicate the need for an additional but separate type of engagement, for example a due diligence, to fill any information gap. Any changes to the audit report should not dilute or pollute the objective of the audit engagement.

Furthermore, the areas identified as additional information that the auditor could report on, would be problematic in practice. The extent to which independent assurance regarding the reliability and

completeness of a broad range of corporate information is possible, would be determined by the nature of the information and whether suitable criteria exist or could be developed. Some of the suggested items are more subjective and this could lead to inconsistencies in audit reporting, for example the auditor's perspective of key assumptions, key business risks and the quality and effectiveness of the governance structure and risk management. We believe that there is a risk to reporting on these items separately where the context of the overall opinion of the financial statements may be lost. In addition, suitable criteria would need to be developed to ensure that any type of assurance could be provided over the information. The legal liability risk of the auditor also needs to be taken into account. More information and risk to the auditor could have an additional cost and we therefore recommend that a detailed cost versus benefit analysis will be needed prior to any additional requirements being added.

**2) 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?**

**Response:**

Any changes made to the auditor's report should recognise that the independent auditor's opinion is valued in its existing form and so we believe that the existing auditor's report is meeting the needs of most users and that the binary nature of the report achieves its purpose.

If changes are to be made, the most critical issues are:

- Steps to influence user perceptions of audit quality. This would include considering changes to the auditor's report to include less generic, technical language;
- Improvements in information about the audit process to possibly include more information about the procedures, judgements made and information to increase the transparency about the audit process. We recommend that such information should be provided in a manner that does not further add to the complexity and boiler plate language in the auditor's report and does not detract from the objective of the auditor's report to express an opinion on the financial statements;
- Additional reporting by the auditor should comprise only information that the entity has already provided. The auditor should not originate information about the entity.
- Additional auditor reporting requirements must be conducted in accordance with a suitable assurance framework.

We would only recommend that such changes should be made if the benefit of the change outweighed the cost.

Large investors and financial analysts have expressed their views that more information is required, and these users and listed entities are most affected by the issues identified.

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

**Response:**

We believe that the audit report should be consistent for all types of entities, regardless of the nature or the size of the entity for an audit engagement. This is important for consistency and important so as not to increase the expectation gap or information gap any further. A standard report used for all types of entities is familiar for users and is comparable.

It is expected that the financial reporting framework in each jurisdiction would drive the scope of the engagement required for different types of entities. If the financial reporting framework requires an entity to undergo an audit, we believe that these reporting requirements should be consistent.

- 4) Respondents are asked for their reactions to the options for change regarding the format and 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 report in the way outlined in Appendix 1 of this Consultation Paper?**

**Response:**

We do not believe that the proposed changes in the format or structure of the auditor's report will make any significant difference with the possible exception of moving the opinion to the first paragraph of the report. Moving the opinion paragraph may assist the reader to access the information perceived as 'most valuable' as a priority. However, users need to acknowledge that the other sections are important to their understanding of the opinion and therefore should read the entire report.

The paragraphs on auditor and management responsibility were added to address the expectation gap and provide context for the audit. We do not support deleting these paragraphs. We are concerned that there is additional risk in not providing users with information about these responsibilities. We suggest that many of the possible changes discussed indicate that the responsibilities of those charged with governance and the auditors is being blurred and this confirms the need for such paragraphs to be included in the audit report.

We support the preparation of plain English material to explain the scope of audit and that an audit involves sampling and is risk focussed with the objective of providing reasonable assurance.

- 5) 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 the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?**

**Response:**

Removing these paragraphs could have unintended consequences and may create additional risk. We see no harm in retaining these paragraphs.

We do not see any value in re-positioning the paragraphs as we do not believe that this will improve the effectiveness of the paragraphs. We query the value of moving paragraphs around when it has been acknowledged that the opinion is not often read. We would therefore support a review of the technical words that are used in the auditor's report to explore alternatives to assist users' understanding, highlighting that any changes made should consider carefully whether it would assist or actually hinder a reader's understanding.

- 6) 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?**

**Response:**

Remaining silent on this issue may create ambiguity for readers about the auditor's responsibilities relating to other information in documents containing audited financial statements, and it would therefore be preferable to include a clear, concise statement in the auditor's report.

- 7) **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 the other information?**

**Response:**

We recommend making an explicit statement, based on the work that the auditor has done in the course of the audit, whether they are aware of any facts or matters in the Annual Report that are inconsistent with the information contained in the financial statements or obtained in the course of the audit.

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

**Response:**

We are not in favour of providing increased information about the audit for the reasons outlined in the consultation paper. Technical jargon, which is often necessary, is problematic in that users will not understand the meanings of certain terms and therefore may be confusing to the user.

We support the current approach to the use of an Emphasis of Matter paragraph and an Other Matter paragraph. We do not support the increased use of such paragraphs in the standard auditor's report. Currently there is limited use of these paragraphs. Requiring auditors to make positive statements about whether there are any matters to emphasise may result in excessive or unnecessary paragraphs which would reduce the benefit of such paragraphs.

We support the addition of information about circumstances or relationships that might bear on the auditor's independence.

We recommend that there may be some benefit in exploring adding information about "audit materiality" if it helps to clarify the objective of an audit and the primary purpose of the audit report. However, we caution that adding such information may be more problematic than beneficial, but still believe it is worthy of consideration given the apparent demand for such information. Specifying the materiality threshold without sufficient explanation may cause more confusion. Also care has to be taken with increased reporting on individual components which may have little or no relationship to reporting on the financial statements as a whole. (For example differing levels of "materiality" used for different subject matters).

- 9) **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.**

**Response:**

We would caution against the use of these paragraphs. We stress that accountability rests with those charged with governance and that pursuing the use of justifications of assessments may contribute to blurring this accountability. These paragraphs do not appear to add any value in providing additional auditor commentary. If such information is required, we recommend that such information would be better located in the notes to the financial statements which are then subject to audit or review.

- 10) **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.**

**Response:**

We are alarmed by and opposed to additional reporting responsibilities for the auditor about the entity, emphasising the risks of blurring the responsibilities of those charged with governance and the auditors.

We support the view that auditors are responsible for expressing an opinion on the historical financial statements as a whole and it is the role of management and those charged with governance to fill any information gap.

We therefore see a number of problems with this prospect. The auditor is not and should not be responsible for disclosure of information about the entity, which must remain the responsibility of those charged with governance. Auditors should only report on information that has already been reported by those charged with governance. It is not appropriate for the auditor to provide information or provide assurance to users on information that has not been reported by those charged with governance.

Such a requirement could lead to a less robust and open dialogue between the auditor and those charged with governance, jeopardising relationships which could have negative consequences to audit quality. Sharing insights and perceptions is subjective and we question whether suitable criteria could be developed to enable consistent high quality reporting.

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

**Response:**

We broadly support an enhanced corporate governance report, with enhanced reporting by the independent auditor. We support greater transparency regarding key issues considered in the communication between external auditors and audit committees or those charged with governance, and strongly support such disclosure being made in a report prepared by those charged with governance rather than the external audit report. We support the proposal for auditors to report on the completeness and reasonableness of such a report provided suitable criteria can be established.

**12) 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?**

**Response:**

Additional reporting requirements may impact negatively on the relationship between those charged with governance and the external auditor. Those charged with governance would need to be convinced of the benefits of the additional requirements. The regulators of the financial reporting process will need to determine whether requirements should be established for any such report made by those charged with governance. In addition, as highlighted, developing suitable criteria for any assurance to be provided by the auditor would influence the acceptance of such a model.

**13) Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?**

**Response:**

Yes, we believe that this would be appropriate provided, as mentioned, that suitable criteria could be developed.

**14) 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.**

**Response:**

We support the concept of assurance on this type of information but believe that the first step is to identify and understand that such information would add value. Understanding what users need is therefore critical. We believe there may be an increased role for assurance providers to report on these areas but stress that this should be done as part of a separate assignment to the audit and should not be combined with an opinion on whether the financial statements comply with the financial reporting framework.

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

**Response:**

An on-going discussion with regulators, providers and other key users is required regarding the scope and need for these services.

**16) 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.**

**Response:**

Additional reporting responsibilities may impact on the audit process and audit cost and therefore recommend that further research is required prior to making any changes. As highlighted above, there is a risk of imposing additional cost for a minority of users.

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

**Response:**

No, we believe that these will differ by entity, according to their size and reporting and or assurance requirements.

**18) 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?**

**Response:**

We see the most value being added from exploring and developing an enhanced corporate governance model. We believe that this could potentially provide a model to assure users that they are provided a comprehensive report on matters that the auditor considered important, but is workable as it is a report prepared by or on behalf of those charged with governance and not the auditor. The scope of such a report could readily be tailored to those where the benefits outweigh the costs.

In addition we are supportive of developing other types of educational material about the meaning of an audit and the role of auditor to address the expectation gap.

**19) 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?**

**Response:**

We have no further suggestions for changes to auditor reporting.