



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**

MINISTERO DELLA GIUSTIZIA

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Re: IAASB CP on Enhancing the Value of Auditor Reporting: Exploring Options for Change

The Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (hereinafter CNDCEC) has the pleasure to submit its comments on the IAASB CP "Enhancing the Value of Auditor Reporting: Exploring Options for Change."

CNDCEC deems extremely important an intervention by IAASB, aimed at providing a set of general rules which will permit to adapt the content of the auditor's report on statutory and consolidated financial statements to the always greater complexities characterizing the national and foreign markets, and to the consequences and risks that such circumstances bring for the financial statements and for the information expected by the different stakeholders.

We highlight however that designing statutory and consolidated financial statements that include the most significant information the different stakeholders need in order to take knowingly their best decisions represents a challenge which is particularly important and will necessarily involve all the parties who, with different roles, are involved in the preparation of the financial statements and in their audit (legislative body, professional associations, single professionals, etc.)

In this perspective, we agree with the approach adopted in the document to also consider the needs of smaller entities, whose characteristics and stakeholders are different from those of the public interest entities.

Kind regards,

Acting CEO
Francesca Maione

Preliminary remarks:

In Italy, the information included in the auditor's report on statutory and consolidated financial statements seems to be sufficiently adequate to the information requirements of the financial statements itself, and appropriately in line with the international rules.

We therefore reaffirm that, if on one hand it is true that the financial statements with their the numerical schemes and notes represent the year-end outcome obtained complying with the accounting rules of the civil code, interpreted and integrated with the related accounting standards, on the other hand such disclosures may not exhaustively represent all the information required by the different stakeholders. Such limitations or characteristics consequently impact also on the content of the auditor's report.

In our opinion, in order to resolve such impasse, inherent to the nature of the financial statements, it would be useful to focus on the content of management's report. The civil code, also further to the recent reform, and the related accounting principles already provide for the report to include more information than that contained in the notes, with the purpose of satisfying the wider and more specific information needs of the stakeholders. In addition to the response to this Consultation Paper, the opportunity could be considered to integrate such document with the missing information (representation of prospective cash flows) or insufficient (e.g. the analysis of the risks incurred by an entity and of the procedures and times adopted by the management to deal with them). A specific auditor's report (or an integration of the current one, going beyond the assurance of the mere consistency with the financial statements) could provide assurance on that document, whose structure is more complex and articulated if compared with that of the current one (provided that the stakeholders' needs are balanced with the information that can be disclosed without bringing a prejudice to the entities). While considering additional information to include in the management's report, it should be taken into account that: these should not load the document too much; and that it should be avoided that the entities provide confidential information or information that can bring a prejudice to the entity itself also with reference to competitors.

Question 1:

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

We agree with the reflections on the issues of expectation gap and information gap contained in section II of the Consultation Paper. With reference to the expectation gap we deem that, as to the Italian situation, a specific reference to fraud in the auditor's opinion would be useful. In relation to this, the clarified version of ISA 700 (Forming an Opinion and Reporting on Financial Statements) regulating the content of the auditor's report with reference to the responsibility arising in case of fraud, surely represents an important term of reference.

We believe that the widening of the content of the auditor's report aimed at satisfying the stakeholders' and shareholders' information needs has to be combined with specific legal/accounting integrations which currently require a minimum content of the financial disclosures and of the related auditor's report. The auditor represents that, with reference to the outcomes of the procedures adopted, the financial information contained in the financial statements make the overall financial statements true and fair, such that in the recent reform, in order to clarify what previously mentioned, it has been specified that the auditor's report is a report of the statutory audit on the accounts.

Considering that in the auditor's report a reference is made to the quality and the type of work performed, if on one hand it would be useful that such document becomes more similar to the long-form report to increase the number of information available to the financial statements users, on the other hand, such widening would unavoidably lead to a significant effort necessary to define limitations and contents of the information to be included in the report and anyhow to higher audit costs.

We deem, however, that a further consideration should be made, with particular reference to the information gap. The financial information needs satisfied in the financial statements and the related auditor's report can be improved through clear legislative provisions, adequately interpreted by the competent professional bodies. As mentioned in our preliminary remarks, improving the financial and non-financial information relating to the entity's business provided to the users (e.g. main risk areas the entity is

subject to, report of prospective cash flows generated by the entity, etc.) could represent, in our opinion, a possible solution to satisfy a concrete information need. Such disclosures often results, and/or is sometimes separated, from financial information; consequently the financial statements alone cannot represent all the market complexities that the investors would require in order to decide with greater awareness.

Since the information missing in the financial statements (and consequently also in the related auditor's reports) are quite complex and their nature is not strictly accounting-related, we deem that the management's report could be adopted as an information document, with the precautions mentioned above; such document, on account of its nature can contain also non-financial information or considerations on such information. Therefore, the consequent integrations to the information contained in the financial statements should be included in the management's report; the improvement process of such report would thus be continued and finally allow to include this report in the definition of financial statements, by: identifying its more illustrative contents; providing for an adequate integration of the auditor's task (and consequently a greater attention to the professional resources used during the testing process); and providing for an appropriate integration of the auditor's work and report (not limited only to express an opinion on the consistency with the statutory and consolidated financial statements).

Question 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?

We agree that there is need for a greater transparency of the information that is currently available to the entity's management and to the auditor, but that does not come to the attention of the financial statements' users.

In our opinion, however, filling this gap should not be a task of the auditor. Most information should be provided by the relevant financial reporting framework, and the management should be in charge of providing it. The auditor will be in charge of verifying the correctness and completeness of such information.

Question 3:

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

Changes should concern the audits of all types of entities and provide also for specific rules to be applied to listed entities, considering the more stringent information requirements these latter are subject to.

Question 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?

We believe that changing the position of the paragraphs within the auditor's report will not bring positive improvements, considering that currently every paragraph has a title that immediately identifies its content. Specifically, the auditor's opinion paragraph is easy to identify even if it is placed at the end of the report.

Question 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?

Also considering what mentioned above, in our opinion, the removal or repositioning of the paragraphs dealing with the responsibilities does not seem to be fundamental for reducing the expectation gap; however the cross-reference to a separate document presents on the other hand the risk of increasing the expectation gap.

It is difficult to find an optimal balance between exhaustiveness and synthesis. We consider the intermediate solution proposed by the current standard acceptable.

Question 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?

See answer to question n. 7.

Question 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?

We are in favour of a radical solution: an explicit statement that the auditor has no responsibility regarding other information in documents containing the audited financial statements.

Question 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.

We do not believe that any additional information on the quality of financial disclosures, the internal control system or the governance structure of the audited entity should be included in the auditor's report. In our opinion, all information the auditor becomes aware of during his/her audit engagement and that can affect the financial statements are adequately assessed by the auditor. In this regard, we underline that one of the main tasks of the auditor is to adapt the type of testing and the related sampling to the information obtained. The outcomes of the work performed on the basis of the information obtained will be adequately included in the auditor's report, if the necessary conditions exist.

We agree with the concern, already evident in ISA 706, that the abuse of the Emphasis of Matter Paragraph or of the Other Matter Paragraph may be ambiguous and significantly reduce their effectiveness.

We deem that the proposal of paragraph 62 to include in the auditor's report the materiality level adopted is not appropriate: every auditor knows that such level should never be communicated to the management (to avoid the risk that management conceals misstatements of lower amounts).

Question 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:

The French example is surely quite interesting because it contains technical information that can be disclosed and this occurs in a separate section, avoiding any confusion with the section containing the opinion on the financial statements.

However, for the reasons above and with reference to the Italian reality, such solution needs an important intervention of professional bodies in order to specify the form and content of such an integration.

It is evident indeed that the technical language that would be used in this section can be understood only by informed users, who are typical of the listed entities/PIEs.

Question 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.

See answer to question n. 8.

Question 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.

The proposed model is interesting. However it would be applicable only to larger entities which have an audit committee. Generally the tasks of such committee are strictly related to the business and financial aspects of the entity, for example the internal audit supervision, the support to resolve issues related to the financial statements, taking active part in determining the policies of the entity etc. As a consequence one of the main tasks of the external auditor is to periodically discuss with the committee and to take into consideration the results of such discussions while planning and performing the audit work, whose outcomes are anyhow resumed in the auditor's report. Therefore, if the Committee does not diligently perform its tasks and this materially affects the financial statements, such consequences will need to be adequately included in the external auditor's report.

We highlight, however, that such model, adequately transposed in our national reality, would have the undeniable merit of promoting communications between the audit committee and the auditor, as well as their communications to the stakeholders.

Question 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?

Taking into account the answer given to question 11, in Italy the model proposed could be only partially applied, since it is possible that for entities other than PIEs the roles of the audit committee and auditor are both served by the same subject (*collegio sindacale*).

The model should also provide that the two subjects, during the period, communicate to each other the weaknesses identified, to avoid the risk that:

- the audit committee highlights in its report only the weaknesses highlighted by the auditor ("copy and paste");
- the auditor expresses an opinion on the reasonableness and completeness of the audit committee's report regarding only the weaknesses highlighted by the auditor.

Finally, if the two additional reports have to be issued always in the period of time elapsing between the approval of the project by the administrative body and the submission of the financial statements and the reports to the registered office, there would be need to assess if such period is sufficient (in Italy it is 15 days).

In addition, some important integrations to the extent of the external auditor's work and to the procedures adopted should be provided.

Question 13

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

See answer to question n. 12.

Question 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.

Currently in Italy the auditors (in particular within the PIEs) are not allowed by the law to provide most of the services indicated, for incompatibility reasons.

Question 15.

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

See answer to question n. 14

Question 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.

Albeit several practical and methodological issues would need to be resolved, we believe that, in order to improve the information capacity of the audit report (with reference to the work performed by the auditors and to the illustrative content of the financial statements), the solutions which present the best cost-benefit balance among those proposed in the present consultation paper, could be to appropriately adapt the French model and eventually, only for listed entities, to provide a report on the audit committee's activity.

The main criticalities are related to the fact that including a paragraph – even if separated by the opinion paragraph – containing a summary of the work performed, would possibly not satisfy the information needs of the various stakeholders and would furthermore force the auditor to give technical explanations on the audit procedures adopted and the outcomes obtained (e.g. why has a procedure been adopted instead of another?). With reference to this last aspect, the audit work presents some unavoidable characteristics of technical subjectivity resulting from the sensitivity of the professional and from the understanding of the entity and its environment that influence the audit plan. Often explaining these aspects, or the technical reasons for giving a greater importance to some elements rather than to others, can be particularly complicated even when the interlocutors have a specific but not completely adequate competence.

However, it would be worth to identify a standard process to list at least the mandatory procedures performed by the audit firms.

If, on the contrary, the attention of the different stakeholders is focused on financial information, non-financial information, and accounting information that is not required by the current information framework, the choice could be to extend the mandatory content of the management's report, and consequently extend the content of the audit report and the auditors' activity. In order to achieve this, the current legislative framework on financial statements and statutory audit would need to be adapted.

Question 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.

In our opinion, the benefits would be greater for listed entities/PIEs, that generally have more informed users.

Question 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?

See answer to question n. 16

Question 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?

Besides the content of the answer to question n.16, with reference to the management's report, we deem important to consider the mandatory participation of the auditor to the shareholders' meeting.