



IAASB Invitation to comment on 'Improving the auditor's report'

I attended a forum in the offices of the Auditing and Assurance Standards Board on auditor reporting on the 11th September 2012. I will now respond to some of the questions posed by the IAASB in the document entitled 'Improving the auditor's report'.

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 suggested improvements to the auditor's report provide auditors the opportunity to communicate a range of matters to financial statement users which until now would only be discussed with client management and those changed with governance. It is important that investors have available all information necessary to make informed decisions. A concern is whether the material provided in the new style auditor's report provides relevant and informational value to financial statement users.

Impediments:

- **Mixed messages:** while sophisticated investors should be able to understand the additional information provided, less sophisticated investors may be misled. For example, a clean audit opinion followed by a statement on going concern and then a commentary may lead users to believe that in the auditor's opinion there are many serious concerns and that the financial statements are somewhat unreliable.
- **Modifications:** when an opinion is modified, the seriousness of that modification may be lost on users as the auditor is always drawing their attention to various matters.
- **Context:** as the auditor highlights a few issues in their commentary, these issues may be taken out of context if the user does not carefully read the financial statements as a whole.
- **Relevance:** if accounting firms standardise the new form audit report, as they are likely to do to reduce costs, the relevance of additional disclosures will be reduced.
- **Confidence:** there is a risk that the additional disclosures will impact user confidence in the financial statements as a whole, which may impact the operation of our capital markets.
- **Costs:** the costs of producing the improved audit report are likely to be very significant and far more significant for smaller accounting firms.

- Role of the audit committee: the issues raised in the auditor commentary are currently dealt with in auditor discussions with their clients' audit committees or boards. The inclusion of this disclosure in the auditor's report may undermine this governance function.
- Workload: the audit busy season is already overloaded. This additional significant workload will impact audit quality and the capacity of accounting firms to give adequate attention to this function.
- Liability: there is a real concern that this move will increase auditor legal liability. By providing commentary on selected items, auditors are exposed when a client fails. There can be questions around the items not highlighted with suggestions that the auditor did not pay sufficient attention them, which may be unfounded. There can also be questions around the commentary made and the appropriateness of the details included in the commentary in light of a subsequent company failure.
- Role of the auditor: where the commentary raises issues additional to that included in the financial statements there is no provision for management and those charged with governance to put forward their point of view. It also blurs the role of the auditor as they should not be seen as a preparer.

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.

- Scope: ensure that auditor commentary only refers to disclosures in the financial statements. If the auditor refers to additional matters, it clouds the line between being a preparer and an assurer. It is very important that the auditor only draws the attention of the reader to important issues already disclosed in the financial statements, maintaining their status as assurer.
- Location: keep the audit report focussed and to the point. The additional commentary can be included in an 'Auditor Discussion and Analysis'. In this way the call for auditors to provide more information will be satisfied while the main message (that the financial statements are/are not fairly presented) is not lost on the reader.

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?

- Placement: having the opinion at the beginning of the report is a great improvement. In that way the main message is not lost.
- Suggested format:
 1. Opinion
 2. Basis for opinion
 3. Respective responsibilities (excluding management's responsibilities relating to going concern)
 4. Going concern (starting off with management's responsibilities relating to going concern)
 5. Report on other legal and regulatory requirements
- Additional commentary to be included in an 'Auditor Discussion and Analysis'

If you have any question regarding this response please feel free to contact me at:
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