

28 September 2012

The Chairman
International Auditing & Assurance Standards Board
529 Fifth Avenue 6th Floor
New York
NY 10017

Level 6 256 St Georges Terrace
Perth WA 6000 Australia
GPO Box P1213
Perth WA 6844 Australia
Tel +61 8 9481 1448
Fax +61 8 9481 0152
www.crowehorwath.com.au

A WHK Group Firm

Dear Sir

INVITATION TO COMMENT – IMPROVING THE AUDITOR’S REPORT

We are pleased to respond to the IAASB’s request for comments on the proposed changes to Auditor Reporting.

Crowe Horwath’s response reflects our position as Australia and New Zealand’s fifth largest accounting business, and Australia’s largest provider of accounting and related services to small and medium enterprises. We have over 100 offices employing over 3000 people throughout Australia and New Zealand.

We are a member of Crowe Horwath International, one of the top ten global accounting networks with offices in over 100 countries.

While we are supportive of the IAASB’s intention to improve the quality and transparency of information available to investors, we have significant concerns about some of the proposals within the Invitation to Comment. The distinction between the responsibilities of management and those charged with governance, and the responsibilities of the auditors are blurred by requiring the auditors to provide commentary and financial information on the entity under audit. In our view, this risks confusing users as to the auditor’s role, and further widening the expectation gap between the expectations of users and the level of assurance auditors are able to provide in reality.

Our responses to specific areas are detailed below:

IAASB Question 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?

While we are supportive of the IAASB’s intention to enhance the value of the audit report, we believe that it is crucial to maintain the independence of the auditor, and therefore it remains necessary to limit what information the auditor can or should provide themselves. In particular:

- It should not be the auditor’s role to provide users with additional financial information or analysis about the entity under audit – all such information should come from management or those charged with governance
- it should not be the auditor’s role to interpret the financial statements on behalf of users or to act as a ‘guide’ for users as to which areas are important
- it should not be the auditor’s role to provide assurance over the level of risk in the business model of the entity under audit

We believe users are best served by the auditor retaining a clear and unambiguous role in providing an opinion on information reported by management, rather than seeking to act as reporters themselves.

IAASB Question 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.

Many of the concerns raised by users focus on the difficulty they experience in navigating and interpreting complex financial reports. This suggests an issue not primarily with the format of the audit report, but with the content of the financial statements themselves. The increase in the volume and complexity of disclosures has proved a significant challenge for both preparers and auditors, yet it appears to have resulted in minimal benefit for many users. The desire for improved auditor reporting appears to be, at least in part, a response to this issue.

In our view, the key to meeting users' concerns is to address the volume of disclosure required under IFRS, and to rebalance the approach away from bulky prescriptive disclosures of detailed financial information towards a greater emphasis on the application of materiality in selecting disclosures, and a greater focus on the requirement to disclose key estimates and judgments.

IAASB Questions 3-7 Auditor Commentary

We are not in favour of the concept of auditor commentary as presently proposed. We are concerned that it diminishes a fundamental principle of financial reporting, which is that management's role is to provide relevant and reliable information to users, and the auditor's role is to provide an opinion on that information.

By requiring the auditor to disclose financial information about key estimates and judgments directly to users, the IAASB's proposals risk creating further confusion about the role of the auditor, which will become less distinct from that of management. This may fundamentally undermine the auditor's independence by making the auditor a part of the "presentation team" for financial information. It would also create an in-built self-review threat by making the auditor responsible for the presentation of information to users which is then subject to the same audit opinion.

There is also a risk of creating two parallel sets of disclosures, or of creating an auditor's discussion and analysis which would overlap with and compete with management's discussion and analysis. This cannot be in users' interests when there are already widespread concerns about the length and complexity of financial statements.

We note that a situation where the auditor is obliged to disclose potentially market sensitive financial information which has not been disclosed by management may run counter to the profession's ethical standards and to corporations law in some jurisdictions or to the listing rules of some exchanges. We would suggest that further research is necessary in this area to address these concerns.

In respect of providing information about the significant estimates and judgments within financial statements, this is already required by accounting standards. If users are finding that the existing disclosure does not meet their needs, there may be a need for revision and further guidance around the requirements of IAS 1 to provide more relevant information to users.

If users are struggling to navigate complex disclosures within financial statements, and require a 'roadmap,' that suggests a requirement for accounting standard setters to reconsider the nature and volume of disclosure requirements. We note that the NZICA and ICAS have recently issued a

consultation paper on “Losing the Excess Baggage” in financial statements with specific recommendations to achieve this objective. We believe that this approach has merit, and we would favour further research and thought leadership in this area.

We would be particularly concerned by any requirement to extend the requirement for auditor commentary outside Public Interest Entities. Both Australia and New Zealand have recently developed a financial reporting framework which is tier-driven, with appropriate distinction between the for-profit and not-for-profit sectors in order to ensure that the benefits of financial reporting are proportionate to the costs. A lengthy audit report would inevitably increase audit time and cost, and would therefore undermine the progress that has been made in this area.

We also believe that the proposals risk undermining the role and importance of an Emphasis of Matter paragraph, when used. In our view, it is unlikely that most users would fully appreciate the distinction between an issue subject to an Emphasis of Matter and one included in Auditor Commentary. Therefore, we suggest that the IAASB’s objectives in respect of audit commentary may instead be better met by expanded use of Emphasis of Matter paragraphs.

IAASB Question 8 Going Concern

We welcome the IAASB’s proposals to include a specific statement on going concern within the audit report, and also to include an expanded description of management’s responsibilities. In our view, this is one of the areas where the ‘expectations gap’ between auditors and users is widest, and therefore it will enhance the usefulness of financial statements by providing an explicit statement of the respective responsibilities of management and auditors, and also highlighting the limitations of any opinion expressed.

However, for the same reasons as our comments above, we believe it would be undesirable to put the auditor in a position where they are required to disclose financial information which has not already been disclosed by management. The assessment of going concern status is management’s responsibility in the first instance, and therefore any disclosures relating to this assessment should come from management or those charged with governance.

We note that the current proposals do not clarify the relationship between the auditor statements on going concern, and the existing requirement of ISA 570 to include an emphasis of matter when a material uncertainty over going concern exists. We would suggest that any new requirements in respect of going concern would need to be accompanied by a reassessment of the existing requirements of ISA 570.

IAASB Questions 9-10 Other Information

We welcome the IAASB’s proposal to include a specific statement on the other information included within the financial report. The requirements do not differ significantly from current practice, so should not result in any significant additional cost, but they are now more explicitly stated, which should be of value to users in providing clarity on what the audit report does and does not cover.

IAASB Question 11-14 Clarifications and Transparency

We are supportive of any changes that seek to further clarify and explain the respective responsibilities of auditors, management, and those charged with governance. In particular, we support the IAASB’s efforts to narrow the expectations gap by providing additional information on the auditor’s responsibilities in respect of fraud and internal control.

On the question of requiring the audit partner to be named in the report, we note that this requirement will usually be specified by local law or regulation, and therefore see no need for a single global standard, particularly given the potential for increased legal liability in some jurisdictions. We note that

currently Australia requires a personal signature whereas New Zealand does not. In our view, this has not led to any significant difference in audit quality or transparency.

IAASB Question 15-18 Form and Structure

We agree with the IAASB's conclusions about the need for consistency within audit reports. It is important that users are able to easily understand the conclusion that the auditor reached, and this is best achieved through a relatively prescriptive format of audit report, with a definitive "pass or fail" conclusion.

We would not support the IAASB's proposal to include the audit opinion as the first item within the auditor's report. The audit opinion's status as the focal point of the report mean that some users will focus only on the opinion itself and ignore all other content in the auditor's report. In our view, this would be greatly exacerbated by such a move. We believe it is important to place the opinion in its proper context – being the result of management, those charged with governance and the auditors all carrying out their respective responsibilities.

We hope that our comments on this Exposure Draft are helpful. Should you wish to discuss any of the points that we have raised, or request any further information, please contact Ralph Martin (ralph.martin@crowehorwath.com.au)

Yours faithfully



Ralph Martin

National Technical & Training Manager, Crowe Horwath Australia & New Zealand