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**Your Ref: Comment letter on Consultation Paper
- Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Dear Sir,

Thank you for giving us the opportunity to comment on your consultation paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change". I agree that there is much that we can do to improve the value of auditor reporting. However, auditor reporting can only do so much when the underlying financial reporting infrastructure is overly complicated and produces information which in itself is not meaningful to users of financial statements (users). For example, just within my own industry (insurance), analysts, investors and other users continually complain that they do not understand the business, and find it difficult to interpret reported information including the financial statements. I would hope generally that the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) will be able to successfully complete their convergence project, and that the IASB will be able to develop a set of widely-adopted, high-quality global standards which provide more meaningful information to users. This would certainly make part of the job of the auditor easier, but I do accept that we would still need to consider the expectations gap, information gap and also the perception gap that you have alluded to. In this letter I will make some general comments, and also discuss some more detailed points.

The perceptions gap

The commentary in the paper explains and discusses the expectations gap and the information gap. I would include a third "gap" here: the "perceptions gap". This was alluded to in paragraphs 15 and 16. The perceptions gap is probably the most internal and easily modified of the three gaps identified. It is something which is under the control of the auditors involved and the whole profession. The key to mitigating the perceptions gap is clear and

honest communication about the extent of the auditor's role, and the extent of the procedures, tasks and general work involved in carrying out that role. Users understand that auditors are well-trained and qualified, and should serve a wider public interest as part of their profession. I think it would be useful to educate users and even the general public about the effort and hard work involved in carrying out the auditor's duties. As part of this I would suggest that the auditor's report should include greater disclosure of the tasks and procedures carried out in performing the audit, and that this should be included preferably in an appendix to the report. Users would then be able to better appreciate the completeness of the auditor's investigative work, and would therefore give greater credence to the auditor's views and opinions. I think that this would also help to manage users' expectations about the role and duties of the auditor in this context.

Answers to specific questions raised by the IAASB

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

Please see my comments above on the perceptions gap. The auditor's report should not be perceived as just a tick-box exercise.

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?

I am not sure that it is the job of the auditor alone to narrow the information gap. This exists primarily due to the complexity and weaknesses that exist in the current global financial reporting frameworks. I do accept that the auditor's report should be informative, but this also requires a clear, robust and meaningful financial reporting framework within which to report. However, I suggest that the communicative value of auditor reporting could be substantially improved by altering and optimising the layout of the report. For example, the auditor's opinion should be prominent, and the majority of backup or supporting material should be presented in appendices.

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

Changes are needed for all types of entities. In terms of resourcing or timelines, the changes should apply to listed entities as a priority.

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?

Changing the format and structure of the standard auditor's report is a relatively simple way of improving the communicative value of audit reporting (see my response to question 3 above).

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?

The content of the paragraphs dealing with management and the auditor's responsibilities are reasonable and removing them from the auditor's report could widen the expectations gap. However, I do not believe that re-positioning these paragraphs as suggested would widen the expectations gap. If anything this should improve the communicative value of the auditor's report.

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?

Yes. Including a statement about the auditor's responsibilities regarding such other information would help to manage users' expectations about the auditor's role and responsibilities here, and the extent of the auditor's duties pertaining to such other information (see also my answer to question 7 below).

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?

I agree that there should be an explicit statement as to whether the auditor has anything to report with respect to the other information. As a minimum the auditor should be required to mention any qualifications, omissions or other problems thereon. Anything less would be unprofessional regarding the auditor's responsibility to the wider public interest.

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.

I would certainly support an expanded auditor commentary on matters significant to users' understanding of the audit or the audited financial statements. Such commentary should only be provided when necessary to aid understanding. In this sense it should not become boilerplate over time. At the end of the day, the auditor's report should be informative and useful as a whole, rather than just section-by-section, and any commentary that aids users' understanding in this regard should be beneficial. The information suggested in paragraph 62 is a good place to start.

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.

I agree that this is worthy of further consideration.

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.

I agree with this up to a point. I would support further auditor insights if these would aid users' understanding of the audit or the audited financial statements. However, this has to be placed within the context of the auditor's role and responsibilities and the management of users' expectations. The duties of the auditor have to be clearly delineated, otherwise the auditor's role and responsibility will become unbounded and potentially take on a governance role in respect of the entity.

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.

I agree that these are worthy of further consideration.

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

Possibly. We should bear in mind the risk of circularity and conflicts of interest that may emerge with cross-reporting between the audit committee and the independent auditor.

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.

I believe that in some cases this might be useful. I expect that some of these services will become more widespread, as entities begin to request these services on a voluntary basis. Market pressure will then cause the use of such services to increase, if the information therefrom is perceived as meaningful and cost-effective to produce. An example of this was the increasing use of supplementary embedded value reporting in European insurance companies in the late 1990s. Users appreciated the economic clarity and presentation thereof, compared with the rather opaque traditional insurance accounting techniques, and it was natural that all the main European insurers started to publish this information, including an independent audit opinion thereon.

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

Users, potential users and even the general public need to be convinced of the added value of such services. It is a business case, and users should be convinced that the additional and incremental benefits derived from such services would outweigh the initial and ongoing costs of utilising such services.

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?

I believe that the most resource- and value-effective change would be to improve the communicative value of audit reporting by altering the layout of the report. For example, the auditor's opinion should be prominent, and the majority of backup or supporting material should be presented in appendices. In order to narrow the perceptions gap I would also suggest that the auditor's report should include greater disclosure of the tasks and procedures carried out in performing the audit, and that this should be included in a separate appendix to the report.

In order to narrow the expectations gap, I would further recommend that the auditor's report should include an explicit statement about the auditor's responsibilities regarding information in documents containing audited financial statements. This should include an explicit statement as to whether the auditor has anything to report with respect to such other information. As a minimum the auditor should be required to mention any qualifications, omissions or other problems thereon.

Regarding the information gap, I believe that this discussion needs to involve other parties, including the IASB, other relevant intergovernmental and supranational organisations involved in current global financial reporting frameworks, and preparers and users of financial statements.

Yours faithfully

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