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**Your Ref: Comment letter on Invitation to Comment
- Improving the Auditor's Report**

Dear Sir.

Thank you for giving us the opportunity to comment on your Invitation to Comment on "Improving the Auditor's Report". I agree that there is much that we can do to improve the value of auditor reporting, and that your suggested improvements are a good starting point. 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 address the expectations gap, information gap and also the perception gap that you have alluded to.¹

¹ See paragraphs 15 and 16 of the IAASB Consultation Paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change", May 2011. 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 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

Overall Considerations

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?

Yes, I believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report. The format is clear and the structure, particularly the more prominent positioning of the audit opinion, will improve the communicative value of the auditor's report.

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.

The auditor's report should provide more commentary on complex and subjective areas, particularly those involving management estimates or judgments, in order to manage users' expectations about the quality of an entity's financial reporting.

Auditor Commentary

3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64.)

Yes, the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report. I strongly support this proposal. However, the Auditor Commentary should be limited to objective statements that would provide transparency about matters that are likely to provide more meaningful information to users. Such commentary should only be provided when necessary to aid understanding. In this sense it should not become boilerplate over time.

4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50.)

I agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, as this could depend on the facts and circumstance of the particular audit. However, some guidance to inform the auditor's judgment would be useful in order to promote consistency in the level of Auditor Commentary. Therefore I support the mixed approach that you have proposed in this regard.

5. Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)

The illustrative examples of Auditor Commentary provide a meaningful summary of areas that are likely to provide more meaningful information to users. However, we must ensure that the commentary is necessary to aid understanding and does not become boilerplate over time.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)

The Auditor Commentary has to be placed within the context of the auditor's role and responsibilities and the management of users' expectations. The Auditor Commentary should be limited to objective statements that would provide transparency about matters that are likely to provide more meaningful information to users; otherwise the auditor's role and responsibility will become unbounded and potentially take on a governance role in respect of the entity.

Going Concern/Other Information

8. What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)

Auditor statements relating to going concern should address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified, in order to manage users' expectations about the quality of an entity's financial reporting. Unfortunately, I anticipate that this may become boilerplate over time.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)

I agree with paragraph 67 that the auditor's report should include a statement regarding whether, based on reading the other information, the auditor has identified material inconsistencies between the other information and the audited financial statements. This would be more complete and would certainly add value to the auditor's report.

Clarifications and Transparency

11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the

nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)

Yes, I believe that the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit. This would help to reduce the expectations gap and the perceptions gap.

12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

I support disclosing the name of the engagement partner. It would be more transparent, and easier for investors to contact the engagement partner. The engagement partner would be more accountable, and this should act to improve the engagement partner's standard of professionalism, due care and professional scepticism.

13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80.)

The suggested disclosure regarding the involvement of other auditors would be useful. This would provide greater transparency about who is performing the audit and allow users to evaluate these participants.

14. What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83–84.)

I agree in principle with this proposal. Standardised material is best relocated to a website of the appropriate authority in order to reduce clutter in the auditor's report.

Form and Structure

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? (See paragraphs 17–20.)

The communicative value of the illustrative auditor's report has been substantially improved by restructuring the layout. I agree with the more prominent placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report.

16. What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)

I agree with paragraph 21 that global consistency in auditors' reports, when the audit has been conducted in accordance with ISAs, will promote transparency and credibility by more readily identifying those audits that have been conducted in accordance with globally recognised auditing standards.

17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)

I agree that the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise. This will promote consistency and comparability of the auditor's report.

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

The IAASB's suggested improvements are appropriate for entities in both the public and private sectors. There is no rationale for different treatment here.

Yours faithfully

C.R. Barnard

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