

Improving the Auditor's report IAASB

Comments from the Swedish National Audit Office.

Comments due by: October 8, 2012.

Comments given by: Carin Ryttoft Drangel, Filip Cassel and Inge Danielsson

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?

Would it be possible to make use of the "building blocks approach" to tailor a new audit report to the user's expectations?

Yes, it would be possible to make use of the building blocks approach to tailor a new audit report more in line with the user's expectations. However one must realize that different users might have different perspectives on the need for information in the audit report. In the public sector users may be management or those charged with governance in an entity, it may be the responsible ministry, the parliament or a standing committee in the parliament, international institutional investors, the general public and other stakeholders. It is very important to identify the primary users and explore their needs and expectations.

Would a more elaborate report be supportive when the Swedish NAO tries to bridge the expectation- and information gap?

Yes, a more elaborate report would be supportive when the Swedish NAO tries to bridge the expectation- and information gap.

Will it be possible, and is there merit in, applying the going concern assumption on Swedish entities and will it be possible for the Swedish NAO to make comments and express an opinion?

Yes, it would be possible to apply the going concern assumption on Swedish government entities and it would be possible for the Swedish NAO to make comments and express an opinion. The Financial Reporting Framework for government agencies requires that management makes an assumption on going concern. However, the going concern assumption may have less relevance for "ordinary" public sector authorities basically funded through appropriations on the government budget. When such organizations are abolished or merged with others their liabilities and assets are usually taken over by the government as a whole. For some types of entities such as government enterprises and joint ventures with other principals such as private sector entities that operates in legal forms that provides for with limited liabilities for the owners this may not always be the case. The responsibility for carrying out government programs may also be contracted to private sector organizations, such as NGOs och private companies but may still be audited by the Supreme Audit Institution. A general trend is outsourcing and thereby the going concern assumption as well as the auditor's judgment on that issue may become increasingly relevant also for public sector auditors.

The cost will be higher for the audited entities without any additional audit procedures and that could be challenging for the Swedish NAO as we may have to work within predetermined budgets. This may become a great challenge to most SAIs, e.g. more work with still limited resources.

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 Swedish NAO already have the possibility to issue lengthier and more explanatory reports with more detailed information, for example during the fiscal

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year concerning specific aspects of an entity (internal control, IT, procurement, etc.) or in relation to a qualified opinion. In the latter case the Swedish NAO usually issues a specific report to give further more detailed explanation to the opinion.

The suggested type of report will probably give us a new and improved instrument to report. The information in the specific report mentioned above could probably be included in the Auditor Commentary.

Some specific comments:

- The changes in the Auditor's report needs to affect the further improvements of ISA 260 Communication with Those Charged with Governance.*
- This ISA could also include some words of how to present the auditor's report on the annual meeting of shareholders or parliamentary meetings.*
- IAASB may influence legislators to clarify the responsibilities of the board of an entity, the managing director and the auditor.*

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.)

Of course one could always wish that TCWG could provide most of the information in the financial statements with respect to stakeholders' needs. The concepts of Emphasis of Matter and Other Matter paragraphs are not easy to understand for people outside the audit profession. Providing the same information in the Commentary Section of the auditor's report will perhaps make it easier to create a more educational text in by using a freer format.

The text in paragraph 49 stressing that the auditor should not be the original provider of information about the entity is very important.

We agree that the highly subjective matters about the quality of the entity's accounting practices and policies should not be a part of the auditor's report.

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.)

Yes. The matters that should be addressed in the Commentary Section should be tailor made for the audited entity. There is a broad variation of size, scope, tasks, regulatory regimes, governance models, etc between government entities in different countries.

5. Do the illustrative examples of Auditor Commentary² 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.)

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The first option would be to persuade the entity to include the information in the financial statements. The information in the Auditor Commentary could lead to extensive discussions with TCWG and could prolong the period needed for finalization of the Auditor's Report. Such discussions could also affect the cost of the audit.

The information in the Auditor Commentary will be diversified and very free to design. However, it might be a risk that reports are developed in the direction of containing boiler-plate text. To really make use of the possibility to design reports that answers to user's need may require a lot of boldness from the auditor's side, good writing skills and enhanced communication with the user's. This creates an opportunity, but it must be supported by investments in the auditor's professional skills and professional judgment.

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 process to issue the Auditor's report will be prolonged as those charged with governance need to read and comment on the Auditor's Commentary. The cost for the Audit will increase and there is an imminent risk that focus could shift from real issues to the wording.

7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

We believe that it would be important to provide Auditor Commentary for public sector entities, i.e. that public sector entities are defined as PIEs. We believe that all government entities should be classified as PIEs and that a national body should decide that government entities should be treated as PIEs.

The information could be of interest for the general public. It could also be of interest to mitigate disinformation issued by the entities in order to unduly influence political decisions.

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.)

The concept of going concern may be more relevant in the future when we see more and more entities working on new preconditions, sometimes together with other principals (or owners) than the Swedish government.

There will be a huge risk that the auditor's comment is misunderstood as a guarantee for a positive future even though the illustrative report makes clear that all future events/conditions cannot be predicted. The best would be if the entities have an adequate disclosure in the financial statement which the auditor can draw user's attention to.

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9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified? (See paragraphs 30–31.)

There is a value in the statement that no material uncertainties have been identified during the audit, but of more interest will be the journey that leads up to that conclusion. Was it easy or difficult to come to the conclusion that no material uncertainties have been identified? It would be better to describe the way to the conclusion and not only the conclusion.

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

Agree with the discussion in paragraphs 65-71.

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.)

It is helpful for the user's understanding of the nature and scope of an audit.

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

Disclosing the name of the engagement partner is common practice in Sweden, in the private as well as the public sectors. In the Swedish and perhaps the European context as a whole it is hard to envisage the merit of not disclosing the name of the engagements partner. In our context this is an important means for raising the accountability of the signing auditor and his or her willingness to work in accordance with this responsibility. It is also important information to stakeholders.

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.)

We believe that such a disclosure should be included in all relevant circumstances. In some cases it could be more relevant to give the information of the participating audit organizations, for example private sector firms and other auditors involved in the audit of the consolidated financial statement of the Swedish government as a whole.

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.)

On the one hand it may be easier and less time consuming to have the standardized text as an appendix or published on the website. On the other hand there is also a risk that no one really read and consider the text and by time it may be completely forgotten which in the long run may lead to a widened expectation- and information-gap. We suggest that the IAASB takes this question under further

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consideration. It may also be the case that the arguments for either solution differ between different jurisdictions and environments.

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 structure with the building blocks will help the reader to find the information. We think that placing the opinion in the beginning of the report is a user friendly improvement.

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.)

There is a need for global consistency not only in auditor's reports but also for accounting frameworks and the responsibilities for TCWG. Auditor reporting is in some countries regulated by national legal requirements. Adopting and applying generally accepted international standards will take time.

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.)

Yes.

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.)

We are of the opinion that the suggested improvements are appropriate for entities in the public sector. There is a growing importance to improve auditor's reporting also from the perspective of private sector users as a consequence of the debt crisis in many countries that indicates a growing need of funding government programs by lending from private sector financial institutes.