

International Federation of Accountants
Prof. Arnold Schilder
IAASB Chairman
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Zurich, 4 October 2012

IAASB Invitation to Comment - Improving the Auditor's Report

Dear Mr. Schilder

Thank you very much for the opportunity to respond to your discussion paper "Improving the Auditor's Reporting". We welcome your initiative to discuss the future content and form of the auditor's report. The auditor's report is not only a very important document for the stakeholders of the entity being audited but also the only visible result of an audit to the public at large. Therefore, we support the IAASB's initiative to explore options to enhance the quality, relevance and value of auditor reporting.

Treuhand-Kammer, Swiss Institute of Certified Accountants and Tax Experts, is the most important institute of the accountancy profession in Switzerland. Treuhand-Kammer represents more than 950 member firms combining 14,000 professionals and employees. Furthermore, 5,600 individuals with a professional qualification are member of our Institute. As such, we speak for the profession and are thankful to provide our views on your initiative to improve the auditor's report.

1. Overall Considerations

The auditor's report is the most significant instrument in dealing with the well-known expectation gap. Therefore, care should be taken to avoid that any changes to the current auditor's report lead to a widening of the expectation gap. It is very important to remind us that the primary responsibility of the auditor is to express an opinion on whether the financial statements are fairly presented in all material respect in accordance with the given accounting framework. Given this, the auditor's report is not and cannot be the primary source or a substitute for information that should be provided by management of the entity being audited. The extent of information is driven by the requirements of the respective financial reporting framework. Over years the volume of information entities have to include in their (group) financial statements has tremendously increased and various stakeholders doubt whether all

information required today by the reporting standards is relevant. At least, there is the risk that important matters are read over as a result of the enormous volume of total information being presented, especially in the notes to the financial statements. If this holds true it does not seem to be an adequate solution to put the auditor into the position, in which he or she has to highlight matters in the auditor's report in order to help users navigate complex financial statements. By saying this, we do not generally oppose your idea of including an "auditor commentary" in the auditor's report. Please see our comments below under heading 2.

2. Auditor Commentary

We agree that users (especially investors and analysts) would like the auditor providing additional insight on matters that - although appropriately addressed within the financial statements - are of such importance that they are fundamental to the understanding of the financial statements. However, this need should primarily be addressed by those charged with governance or the accounting standard setters. Reporting frameworks should ensure that key facts and figures as well as other matters of fundamental importance are presented in such a way that enables users of the financial statements to gain a thorough understanding and an indication of the performance and future prospects of an entity. As such, additional paragraphs in the auditor's report are not a substitute for reading and understanding the financial statements. The auditor's report should not be designed as a roadmap helping users better navigate complex financial reports.

Nonetheless, we are in favour of your idea of including an auditor commentary section in the auditor's report. We only doubt whether it is of interest for users of the financial statements, if details on the audit scope, audit strategy or audit procedures are presented. Users normally have an interest in getting to know whether financial statements are influenced in one direction or another (prudent vs. aggressive accounting) or whether information presented is biased although still reasonable. However, it cannot be the auditor's task to report on the quality of a company's financial reporting. Quite clearly, auditors can provide additional assurance on information presented outside the financial statements if this satisfies the expectations and needs of users.

We believe that auditor commentary should be mandatory only in the context of audits of public interest entities (PIEs), with the term PIE being defined very broadly, so that jurisdictions and national standard-setters have flexibility to define the applicability of the auditor commentary.

3. Going Concern

The going concern assumption forms the basis for preparing financial statements. Understandably, users of financial statements would like to know further details on the ability of a business to remain in existence for the foreseeable future. On the other hand, there is no black or white between a sound going concern and the situation, in which a business is about to go broke or be liquidated. This difficulty

has been considered in today's auditor reporting. The auditor has to include an emphasis of matter paragraph in the audit report, if the going concern assumption is appropriate in the circumstances but a material uncertainty exists that may cast doubt on the entity's ability to continue as a going concern (given the situation is adequately disclosed in the financial statements). The difficulty today is that the terms "material uncertainty" and "significant doubt" are not clearly defined and leave room for interpretation.

In any case, the auditor has to assess whether management's use of the going concern assumption is adequate in the respective situation. Therefore, the proposed section on going concern in the auditor's report merely reflects the responsibility the auditor already has today. Nonetheless, it should be carefully assessed whether an explicit statement on going concern will add value to the auditor's report, since the going concern assumption has to be discussed in the financial statements already. Even more so, the audit opinion implicitly makes a statement regarding going concern. Therefore, any new boiler plate language should be avoided. Additionally, discussing management's and the auditor's responsibility, this time in relation to going concern, does not add value to the auditor's report. Please refer to our comments below under heading 4 regards including management's and the auditor's responsibility in the audit report.

4. Clarifications and Transparency

We believe that the standardisation of the auditor's report and the extensive use of building block language compromise the value of the auditor's report. This also holds true for the length of the report. The longer a report the lesser the attention the report gets. Therefore, we agree to your idea of structuring the auditor's report in a way, in which the most significant aspects (including the auditor's opinion) are presented at the beginning of the report. See also our comments under heading 5.

However, we doubt whether boiler-plate language used in order to describe the auditor's responsibility is very helpful. Already today, we have a very detailed paragraph in the auditor's report (as laid out in ISA 700) describing the audit approach and the responsibility of the auditor. Nevertheless, the expectation gap could not be narrowed in recent years. This is even more alarming, when considering that the audit profession is one of the most transparent professions worldwide. Auditing standards are available for anyone and at anytime. But it seems that standards have gained a level of complexity that makes it difficult to explain users the essence of financial statement audits. Therefore, we should rethink our standard-setting processes and should have the courage to reduce our audit standards to a minimum, i.e. the setting of principles. This is also true for the set-up of auditor's reports. It would be a courageous but perhaps a rewarding approach to totally exclude details on auditor's and management's responsibility from auditor's reports.

5. Form and Structure

We agree to the proposal to place the auditor's opinion towards the beginning of the auditor's report. This structure follows the principle that the most important aspects and matters should come first. As already described above we do not believe that an auditor's report gains value in case the auditor's report recurrently includes statements about the auditor's responsibility. In our opinion, an auditor's report should include the results and findings of the audit, while it is not the place to explain exhaustively the audit approach in general or the audit procedures in a respective situation. We as a profession should seek other ways to explain the underlying principles and the essence and - of course - the value of financial statement audits.

We once again thank you for the opportunity to comment and would like to stress that we are at your disposal for any further in-depth discussion regarding the future of audit and auditor's reports.

Yours sincerely

TREUHAND-KAMMER
Swiss Institute of Certified Accountants and Tax Experts



Orlando Lanfranchi
President of Regulatory Affairs Commission



Dr. Thorsten Kleibold
Member of the Management Team