



**Accountants Park
Plot 2374, Thabo Mbeki Road
P.O. Box 32005
Lusaka
ZAMBIA**

**Telephone: + 260 21 1 255345/255371/255361, Fax + 260 21 1 255355
E-mail: technical@zica.co.zm**

30th September 2012

**International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York
E-mail: jamesgunn@iaasb.org**

Dear Sir,

COMMENTS ON EXPOSURE DRAFT – IMPROVING THE AUDITOR’S REPORT

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Invitation to Comment (ITC), given the significant impact that these proposals may have on auditor reporting.

The Institute supports the IAASB’s initiative to enhance the quality, relevance and value of auditor reporting and agree that users can benefit from auditor insights. It is imperative to enhance the quality of auditor reporting to restore the credibility of the accounting profession damaged by the recent economic crisis.

Our responses to specific questions are as follows:

Overall Considerations

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?

Comment

Generally, we do believe that the IAASB's suggested improvements would sufficiently enhance the relevance and informational value of the auditor's report.

While appreciating the need for more disclosures, we believe the target should be the corporation itself and not the auditor. By adding more information that the auditor discloses, this fundamentally changes the role of the auditor to that of a watchman. If this is the case, the whole body of auditing and its various standards ought to change as they are all premised on the auditor providing a "true and fair" opinion. Nothing more and nothing less. Moving the auditor to comment on other matters shifts the burden of transparent management from the corporate management to the auditor.

I believe this shift or additional expectation to the auditor would shift a significant liability from management to auditor with the result that the audit costs would go up so would costs such as Professional indemnity. It would therefore be easy for the investors to point to the auditor for blame following losses arising from corporate failure.

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.

Comment

If the central theme is the need for additional information required by investors off management, I would propose that these additional information disclosures be directed at management rather than the auditor. If it is required to test or confirm these additional disclosures for their veracity, then this would represent additional work whose contracting and reporting would fall outside the audit per se. This additional reporting could be in the form of an additional information pack required to be filed either with the company registrar or any other relevant regulator. This additional information would then be available to the investing public.

Auditor Commentary**Question 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.)

Comment

We do not believe that 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. The current provision under ISA 706 Emphasis of matter paragraphs and other matter paragraphs in the Independent Auditor's Report are sufficient to deal with instances when users can reasonably be expected to benefit from the additional information in the auditor's report.

Refer to our response on question 2 above.

Question 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.)

Comment

Since we do not support the concept of auditor commentary, then we are unable to make a comment on this matter.

Question 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.)

Comment

Financial statements have a diverse community of users and therefore what is of value to an investor may not be of value to a regulator. Each user requires more detailed information and providing this information as suggested by the proposal effectively means that the auditor has the duty of care to all users. The auditor can not possibly owe a duty of care to such a diverse grouping of users and plan the audit to ensure all interests are adequately covered. This in our view would make audits very risky business and not worth undertaking as a business enterprise. We could see an increased audit cost, longer time horizon for audit completion as well as fewer auditors, particularly those that do not have the financial muscle of the bigger audit practices.

Question 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.)

Comment

We believe that the aggregate cost of financial reporting for the entities will increase significantly, while the timeliness of the release of financial statements will be adversely impacted. Further more; there may also be increased misunderstanding regarding the roles of the management, those charged with governance (TCWG) and the auditor.

The audit process would also need to change significantly as the focus moves away from the true and fair view or opinion to addressing other corporate disclosures. Auditors can not be used to evaluate the judgments and risk arising from Management decisions - that evaluation role is for the board. The burden for such information should be placed on the board that is more in contact with management on a more frequent basis.

Question 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.)

Comment

Our proposal for alternative information filing by the PIEs as noted in question 2 would be a more reasonable proposal. Again it should be management and not the auditor who should be burdened with additional disclosures

Going Concern/Other Information

Question 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.)

Comment

If it is noted that management's disclosure is inadequate, then focus should be directed at ensuring that such disclosure by Management of the Going Concern position is enhanced. Again, placing the responsibility on auditors for a management function does not resolve the underlying mischief of management insincerity which we believe lies at the heart of this. This proposal attempts at placing auditors to say more than the true and fair view opinion.

Question 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.)

Comment

We support the statement provided it is made clear as in the illustration that the Auditor has not audited the other information.

Question 10

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

Comment

We agree with the objective of enhancing transparency about the auditor's responsibilities in relation to Management Discussion and Analysis. Investors would benefit from clarification of auditor responsibilities in relation to Management Discussion and Analysis.

Clarification and Transparency**Question 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.)

Comment

Yes, we do believe that the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report would be helpful to users' understanding of the nature and lessen the expectation gap of an audit.

Question 12

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

Comment

We believe that disclosing the name of the engagement partner will enhance the transparency of the auditing process. It will make the engagement partners more responsible in order to keep the brand name of their firm high. However, this has repercussions on the Professional Indemnity fees that are likely to go up.

Question 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.)

Comment

We are of the view that there should be a disclosure regarding the involvement of other auditors in all relevant circumstances, such disclosure would enhance the transparency of auditing process and promote consistency in practice.

Question 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.)

Comment

If this could reduce the expectations gap and enhance auditor reporting, then the suggestion would be welcome. However, we believe that this might have the effect of actually increasing the expectation gap.

Form and Structure

Question 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.)

Comment

Though we support the proposal to place the auditor's opinion towards the beginning of the report, as this would emphasize the most important matters to users, there is a view that the current approach where the auditor's opinion is placed at the end allows for users to have an understanding of issues that the auditor took into consideration before reaching the audit opinion.

Question 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.)

Comment

We have no divergent views regarding the need for global consistency in auditors' reports.

Question 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.)

Comment

We do not support the proposal since we do not support some of the proposed changes as indicated in the answers to the questions above.

Question 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.)

Comment

We are of the view that the costs associated with the IAASB's proposals to expand the auditor's report, including auditor commentary and statements related to going concern may exceed any potential benefits for SMEs.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi
Technical and Standards Manager