



Notes on AUASB Roundtable on IAASB Consultation Paper *Enhancing the Value of Auditor Reporting: Exploring Options for Change*

Tuesday, 28 June 2011, Melbourne

In May 2011, the IAASB issued a Consultation Paper *Enhancing the Value of Auditor Reporting: Exploring Options for Change* seeking comments by 16 September 2011. The AUASB in turn issued invitations to constituents to comment on the Consultation Paper to assist the AUASB in preparing a submission to the IAASB. The AUASB has requested comments by 16 August 2011.

In addition, the AUASB invited selected constituents to a Roundtable meeting to provide input in relation to the specific questions raised in the Consultation Paper.

Summary of Matters Raised

The following points were raised at the Roundtable discussions which will be addressed in preparing the AUASB's submission to the IAASB:

Notes of Participants' Views

1. Are changes to auditor reporting really necessary? Is the GFC the right catalyst to prompt change in auditor reporting? Is the auditor the "scapegoat"?
2. USA– style reporting is very complex and yet did nothing to avert the GFC. The USA model implies that the information gap can't be closed by merely increasing the quantity of information. Suggestions in the consultation paper will not necessarily achieve a reduction in the expectation and information gaps. For example, the Directors' remuneration disclosures did not achieve the desired effect.
3. The topic of *integrated reporting* may pick up a number of the issues raised in the consultation paper. However, there was no general support for amending the current auditor's report but some support for reporting separately from the existing auditor's report.

If auditor's report is to be integrated, the following would need to be in place:

- a. The nature, type and source of the other information would need to be developed within a reporting framework, as it currently doesn't exist
- b. The disclosure requirements of the other information would need to be defined within the reporting framework
- c. The nature and type of the auditor's reporting on the other information would need to be defined – is assurance on the information required; and if so, what type of assurance (limited or reasonable), or should it be an Other Matter Paragraph style reporting.
- d. The auditor's reporting responsibilities and TCWG need to be clearly defined

- e. The auditor's report format and content would need to be revised to clearly separate the reporting on other information from the auditors' reporting on the financial report itself – i.e. “integrated reporting” format
4. Additional reporting responsibilities – scope creep potential, where auditors are performing more work on areas not traditionally associated with the financial report audit process, and having to report (and therefore express assurance) on such work:
 - a. auditor^s should only report on information already reported by TCWG, so if the auditor is informing/providing assurance to users on information not already reported in the same document by TCWG, this is not appropriate
 - b. question of appropriateness of reporting the results of such work in the auditor's report (given the currently stated purpose of the auditor's report is an opinion on the financial report)
 - c. question of whether it should be the auditor's responsibility or TCWG (owners of the information) to report
 - d. cost and risk implications for auditors (will clients pay and auditors accept the risk of providing assurance on such areas) and
 - e. Whether users really want such information, (different user groups have differing information needs depending on what they use the information for, how sophisticated a user they are, their knowledge of financial reporting and interpreting financial information).
 5. Support for any increased reporting to be reported separately from the auditor's report compliance with the financial reporting framework.
 6. If users are not getting the information they need, then the (financial) reporting framework should be amended, not the auditor's reporting requirements. The current framework is established and accepted.
 7. There is a belief that users are more interested in the future prospects of an entity and less interested in *historical* financial information. There was no support for combining assurance on compliance with the reporting framework with assurance over other information.
 8. It is very important that changes to auditor reporting do not dilute or pollute the fundamental objective of the audit engagement – that is to opine on whether or not the financial report is prepared in accordance with the applicable framework.
 9. Why is the onus to provide information aimed at the auditor and not Those Charged with Governance or management; and is there a deficiency in their responsibilities?
 10. The paper appears to focus on *adding* more information to auditor reporting but shouldn't there be some discussion on *reducing* reporting requirements, even if such reduction compensates additional reporting requirements? Some support for re-locating the existing information “clutter”.
 11. If the auditor's report is streamlined, then there is a risk that the “expectation gap” will increase. However, some thought there was merit in reducing information in the auditor's report to achieve a basic “one-line” opinion.

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12. Users who may be unaffected by increased auditor reporting are likely to be those who can obtain the information they need through other means – such as regulators and, perhaps to a lesser extent, financiers.
13. There is a risk of imposing an economic burden (i.e. increased reporting requirements) for the *minority* of users.
14. Increased information provided by the auditor may be confusing to users who try to compare performance and assign “value” to various auditors. Also, technical jargon is often problematic in that users do not understand the meanings of certain terms, and in such cases, “more can be less”.
15. If changes are made to auditor reporting, it should be driven by the financial reporting framework, not the type of entity. Auditors only audit what is required and so audit procedures are designed to meet those requirements. User needs should be considered in establishing the (various) reporting frameworks, not assumed on the basis of the type of entity.
16. Auditor reports should contain the same boilerplate reporting of scope and responsibilities regardless of the nature of the entity (public/private) or the size of the entity (small/medium/large). It would be too difficult to tailor auditor’s reports to each individual entity as this creates risk problems of what to put in/leave out and why (too much professional judgement required, resulting in substantial time and therefore costs being imposed). It would also be more difficult for users (particularly users of SME financial reports) to understand as the auditor’s report format would no longer be standard. Boilerplate reporting is consistent, users are familiar with it and it is comparable across all entities regardless of their nature or size.
17. The positioning of the opinion in the auditor’s report is somewhat irrelevant. There was some concern if the responsibilities sections were located *after* the opinion as this can lose context and leading to misinterpretation.
18. Concern was expressed over extending the content of an auditor’s report – may lead to information “overload” and therefore not achieving the desired effect.
19. Concern also existed over additional risks of not providing users with information about responsibilities (management and auditors) in the auditor’s report.
20. Currently there is only limited use of Other Matter Paragraphs.
21. There was some support for increasing information about what the auditor did *not* do – e.g. the auditor does not test/check everything.
22. Proposed changes in the format of the auditor’s report appear to be an attempt to “dumb-down” but such changes will not prevent future financial problems.
23. If sections of the auditor’s report are re-located (such as the UK model) will a court challenge the auditor as to whether or not there has been “effective communication” with users?
24. There may be a public interest in the auditor providing information on the entity’s risk profile but this may be hard to justify. However, the risk/reward is not there for the auditor and therefore is unlikely to be supported.
25. Paragraph 62 in the consultation paper lists a number of suggested areas that could be disclosed in the audit report, however, they assume a certain level of financial knowledge by the users – this may not be the case and therefore make the audit report even more confusing.

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26. Care has to be taken with increased reporting on individual components which may have little or no relationship to reporting on the financial report *as a whole*. An example may be differing levels of “materiality” used for different subject matters.
27. Not much support existed for changes in auditor reporting, as it was seen as theoretically nice but impractical. Assurance on business models and risk profiles may be helpful but are likely to have significant challenges, such as the auditability of information, understandability by less-knowledgeable users, auditors considering additional disclosures as increasing their exposure to risk/liability. Additional information will make the auditor’s report longer but not necessarily more useful.
28. Additional practical issues: how would the auditor determine what information to disclose and how much. Suitable criteria and parameters would need to be set and there would be a need to manage information disclosure with client relationships.
29. Paragraph 72 lists examples of auditor insights and perceptions; however, the items are subjective and would be difficult for the auditor to comment on in a consistent and objective way.
30. No support for increased use of the *Emphasis of Matter* and *Other Matter* paragraphs.
31. The French “justification of assessments” did not appear to add any value at all in providing additional auditor commentary. They seem to use boilerplate language. It was suggested that such information would be better located within the notes to the financial statements (i.e. already subject to audit/review).
32. On the question of auditors providing insights about the entity and the quality of its financial reporting, the answer is to retain clear lines of responsibility between TCWG/management and the auditor. So lines of responsibility would be preserved if the auditor’s role is to audit/review information provided, and attested to, by the entity.
33. On the question of other assurance or related services on information not within the current audit framework, the important point is to determine if such documents would add value. Would more documentation add to increased confusion, would the information be auditable, what would be the cost/benefits to the auditor and client and to what extent is the auditor’s duty of care extended?
34. Significant research will be necessary to influence further development of other assurance or related services on information not within the current scope of a financial audit. Understanding what users need is critical.
35. Overall there is no support for the elements of enhanced corporate governance listed at paragraph 84 in the consultation paper. Particular concern arose over the possibility of auditors “moving” into a management role. No support existed for the proposed Enhanced Corporate Governance Model.
36. Overall, any addition to auditor reporting should be dictated by the financial reporting framework.
37. It was thought very important that the auditor only report on information already provided by the entity.
38. Suggestions for improvement to the auditor’s report:
 - Suggest that the auditor’s report title be changed to indicate the nature of the opinion e.g. “Modified Independent Auditor’s Report” or “Unmodified Independent Auditors Report”

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- Suggest that key audit terminology contained in the auditor’s report (e.g. Materiality, Risk Assessments, Presents fairly, audit) be retained and that it be explained in a Glossary of Terms available or provided to users with the auditor’s report, so that they can understand the terminology better and reduce the confusion. It could be provided as an attachment to the auditor’s report, as if it is not provided at the time of providing the auditor’s report, it will not be read.
- Making the auditor’s report read in a “plain English” style is not seen as helpful, as the technical language currently included is necessary from a liability/risk/professional standpoint, and any effort to make it plain English will:
 - a. Prove difficult to do as the technical language is a necessary part of the audit and the profession
 - b. Increase the length of the auditor’s report through further explanations required of the audit process to cover auditor’s risk considerations
 - c. Not necessarily better inform users, as the interpretation of the financial report and auditor’s report still requires a certain level of financial literacy, which users may or may not have.

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