



**Australian Government**

**Auditing and Assurance Standards Board**

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Melbourne VIC 8007

12 October 2012

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Dear James,

**AUASB Response to the IAASB's Invitation to Comment**  
***Improving the Auditor's Report***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to respond to the IAASB's Invitation to Comment *Improving the Auditor's Report* (ITC).

The AUASB continues to commend the IAASB's initiative to review auditor reporting. Exploring options that may help achieve reporting that better meets users' information needs and aims to enhance the relevance of the audit is in the interests of users, auditors and others involved in financial reporting.

In principle, the AUASB supports the ITC proposals to improve auditor reporting.

In formulating its views and drafting its submission to the IAASB, the AUASB has considered the ITC and has sought input from numerous stakeholders. This has been achieved through direct discussion and hosting a number of forums and roundtables. Participants represented a broad range of backgrounds including audit firms; public sector auditors; regulators; representatives from the Australian Accounting Standards Board; professional accounting bodies; academics; preparers of financial statements; directors and audit committee chairs of listed and unlisted private sector entities and of public sector entities; and institutional analysts and investors.

This detailed consultation process has identified a variety of views in relation to the proposals. The least controversial proposals have virtually unanimous support. More complex suggestions, particularly in relation to Auditor Commentary and Going Concern have support from the investor and regulatory communities; support in principle but with some concerns from larger firms who recognise the importance of making changes; and considerable concern, if not opposition, from other practitioners, preparers of financial statements and audit committee chairs. We therefore wish to draw to your attention the matters and concerns relating to the detail in various parts of the proposal as raised by our stakeholders.

The AUASB believes that changes are necessary to improve disclosure requirements in the financial reporting framework and that the International Accounting Standards Board (IASB) should be encouraged to make appropriate changes to the International Financial Reporting Standards (IFRS). Again, the AUASB commends the IAASB for reaching out to the IASB, regulators and other relevant stakeholders to consider enhancements to the existing financial reporting framework.

Overall, the AUASB supports the intent of the proposed improvements that centre on providing relevant information emanating from the audit and considered by the auditor to be helpful to users. It is important, however, that changes to the auditor's report: are seen to enhance the value of audit in the eyes of users; allow for consistency as well as flexibility in application; maintain or enhance the relationships of auditors with management/those charged with governance (TCWG); and do not blur the lines of responsibility

between auditors and those responsible for the financial statements in relation to disclosure of information about the entity.

The AUASB supports:

1. Auditor Commentary in principle.
2. The relocation and revised wording in the opinion and basis for opinion paragraphs.
3. The enhancements to improve user understanding, particularly of responsibilities of the respective parties.
4. The consolidation of information in the Basis for Opinion paragraph.
5. Global consistency through mandating minimum requirements and encouraging national tailoring (the “building blocks approach”).
6. Going Concern reporting, with appropriate changes to the financial reporting framework.

The AUASB encourages further consideration to be given to alternative avenues to improve auditor reporting, such as Auditor Commentary or conclusion on separate informational reports issued by an entity’s audit committee or directors; and dividing the auditor’s report into distinct sections.

The AUASB’s responses to the specific questions raised in the ITC are detailed in **Attachment 1** for the IAASB’s consideration.

Should you have any queries regarding this submission, please do not hesitate to contact myself, Richard Mifsud at [rmifsud@auasb.gov.au](mailto:rmifsud@auasb.gov.au) or Howard Pratt at [hpratt@auasb.gov.au](mailto:hpratt@auasb.gov.au)

Yours sincerely,



Merran Kelsall  
*AUASB Chairman*

Attachment 1 – AUASB Response to the IAASB’s ITC  
Attachment 2 – Editorial suggestions

**AUASB Response to the IAASB's Invitation to Comment**  
***Improving the Auditor's Report***

- 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?**

**AUASB Responses**

- 1.1 The AUASB supports much of the proposals in principle in the ITC that enhance the informational value and relevance of the auditor's report.
- 1.2 Mandating the order of elements in the auditor's report provides for consistency, user familiarity and comparability of auditors' reports at local and global levels.
- 1.3 Relocating the opinion and basis for opinion paragraphs to the beginning of the auditor's report enhances the priority of this information which represents the purpose and outcome of the audit process.
- 1.4 The proposals of an educational nature are improvements in assisting users in their understanding of the audit process. The proposed enhancements in the following areas are seen as valuable and with benefits that are likely to exceed impediments:
- (a) The descriptions of the responsibilities of management/TCWG, particularly concerning their responsibilities relating to going concern;
  - (b) The descriptions of the responsibilities of auditors, particularly the 6 supplementary sections on risks, internal control, evidence etc.; and
  - (c) The consolidation of information in the Basis for Opinion paragraph.
- 1.5 The ITC proposals may not in all instances sufficiently enhance the relevance and informational value of the auditor's report in view of possible impediments (including costs).
- (a) Where there is a deficiency in the financial statements in meeting the information needs of users, changes should be made to the financial reporting framework, including IFRS. Any such changes could provide an anchor for Auditor Commentary or conclusion on such enhancements.
  - (b) Some constituents believe that the proposals on going concern and Auditor Commentary may be seen as blurring the responsibilities of management/TCWG and possibly extending the scope of an audit.
    - (i) In the case of going concern, there are existing requirements - the fundamental concept of going concern contained in the Accounting Standards, the modified opinion and emphasis of matter paragraph options in the Auditing Standards, and in the case of Australia, *Corporations Act 2001* requirements for a directors' declaration of solvency to be included in the financial report. Without further explanation, users may misunderstand:
      - The reasons such extra disclosures have been made;
      - Whether the underlying message is alarm or reassurance;
      - The reasons why the existing framework is being enhanced;

- The reason going concern is singled out from other (arguably) important aspects of the financial statements; and
- That the audit scope has not increased.

*Suggestions:*

- (a) Improvements in auditor reporting should be combined with initiatives to enhance international financial reporting frameworks.
- (b) Under IAASB leadership, national standard setters and professional accounting bodies should provide the necessary and appropriate education to properly contextualise the enhancements to auditor reporting.
- (c) Consideration should be given to extending the reporting enhancements to interim reporting, whether an audit or a review.

**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.***

**AUASB Responses**

2.1 The AUASB encourages the IAASB to continue to discuss enhancements in auditor reporting with the International Accounting Standards Board (IASB). Management or TCWG should be required, under IFRSs, to be responsible for explicit statements, included in the financial statements, that:

- (a) The financial statements have been prepared on a going concern basis; and
- (b) As at the balance date, the entity is a going concern.

In addition, the IAASB should encourage the IASB to enhance its pronouncements to include specific definitions of terminology related to going concern, including “material uncertainty”, “significant doubt”, “solvency” and “going concern”.

2.2 The AUASB strongly encourages the IAASB and the IASB to work together to initiate an appropriate user education response to the apparent user expectation gap that exists in relation to going concern. Users commonly misinterpret an unmodified auditor’s report as providing a form of guarantee about the entity’s ongoing solvency. The going concern disclosures proposed in the ITC are helpful, however, should be supplemented with broader user education initiatives.

2.3 If users’ information needs are not being met by current financial statement disclosures, the AUASB supports enhancements to the financial reporting framework. Such enhancements complement the proposed Auditor Commentary, statements on going concern and responsibilities regarding other information.

2.4 The AUASB supports the idea of the entity’s audit committee or TCWG providing commentary and/or analysis that are designed to: (a) meet the needs of the users; and (b) meet the needs of the entity. The auditor may then be in an appropriate position to comment or opine on that commentary and/or analysis. This suggestion helps to clarify responsibilities of the parties.

2.5 Some auditors have expressed their concern over being required to condense complex accounting and auditing issues into simplistic “plain English” commentary. For example, it is difficult to properly represent within the confines of the audit report, how an auditor audited a particularly difficult or complex area, and importantly how the auditor ultimately concluded on that area. So many factors are involved in the auditor’s work and without a contextual framework or an appropriate explanatory foreword; any such summary may confuse some users and leave the summary open to misinterpretation.

- 2.6 There is an apparent lack of users’ understanding of both the financial reporting framework and auditors’ responsibilities and processes. Any enhancements to the auditor’s report that combat this situation are valuable.

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.)***

### **AUASB Responses**

- 3.1 The AUASB considers the concept of Auditor Commentary as an appropriate response to the call for auditors to provide more information to users through the auditor’s report. The auditor’s choice of items to highlight, such as significant judgements made by management, should be to help users to focus on areas that are important to their understanding of the financial statements as a whole, or the audit. Many of our stakeholders believe that the auditor’s commentary should not introduce information about the entity that has not already been disclosed by the entity; however the auditor should be able to provide informative insights on the audit process regarding those matters disclosed in the financial statements. Other stakeholders believe that auditors should be able to provide informative insights on matters related to the audit. We recognise that some constituents are, however, calling for clear criteria to determine what Auditor Commentary would include – clear guidance is essential.
- 3.2 It is important that any impediments do not impair any existing, or additional, value in auditor reporting (such as unrestricted and honest auditor/client interactions); and that the proposals:
- (a) Meet or exceed the value objectives set out in the ITC;
  - (b) Are flexible and, where appropriate, determined by the auditor; and
  - (c) Enhance the relevance of auditor reporting.
- 3.3 The AUASB is supportive of Auditor Commentary replacing the existing “Emphasis of Matter” paragraph(s) (EOM). Appendix 1 to ISA 706 currently lists other standards where an EOM is required. These requirements should be mandated under requirements for Auditor Commentary.
- Under the ITC proposals, Auditor Commentary will be mandated for PIEs, however, in other cases, if Auditor Commentary is not provided, the existing EOM requirements would be applied. It is unclear how this will work in practice and whether it would cause confusion for users. Further consideration of this issue is therefore necessary.
- 3.4 The AUASB is supportive of auditors providing summarised information on their judgements and procedures in the auditor’s report. Appropriate introductions or caveats should clarify that such summarised information does not represent a complete picture of the auditor’s work effort and that it is unique to the entity.
- 3.5 Care must be taken to guard against the risk of inappropriate, subjective Auditor Commentary that may adversely affect the entity. Auditors must ensure that they have a sufficient level of understanding of the entity’s business and they have had appropriate discussions with the relevant level of management or TCWG before finalising the Auditor Commentary.
- 3.6 In the case of Auditor Commentary, there is a risk that auditor-introduced information, not previously disclosed by the entity, will result in unintended influence on users, such as “investor flight” and misunderstanding of the auditor’s responsibilities; and the potential for litigation against the auditor. This applies to both entity information and auditor judgements and procedures.

Other perceived impediments relating to Auditor Commentary are:

- (a) Delays in finalising the audit;

- (b) Additional, and potentially significant, costs of auditor/client discussions to reach consensus regarding the Auditor Commentary, especially in the year of introduction;
  - (c) Commentary becoming boilerplate in subsequent years - thereby reducing its value;
  - (d) Limitations in comparability of the auditor's report if entity-specific information dominates the auditor's report; and
  - (e) Potential for auditor/client relationships to become stressed and management to become evasive.
- 3.7 Care should also be taken to ensure that Auditor Commentary does not, or does not appear to, assume responsibilities from management or TCWG. The existing model of preparer and *independent* auditor should be maintained. So too, it is important that Auditor Commentary does not provide preferred alternative views/judgements to those used in the (finalised) financial statements – to do so would be confusing to users.
- 3.8 The imperative for improved transparency about auditor responsibilities and procedures is acknowledged and enhancements to the auditor's report are supported. In addition, broad education should be provided to users by means other than exclusively through the auditor's report, such as through the websites of national standard setters, regulators and professional accounting bodies; and appropriate education programmes. The AUASB supports educational boilerplate material being included in an appendix to the auditor's report.
- 3.9 In Australia, auditors of listed companies are required under the *Corporations Act 2001* to answer shareholder questions at annual general meetings on specific matters relating to the conduct of the audit or the contents of the auditor's report in respect of the annual financial statements. Some stakeholders see Auditor Commentary proposals as an extension of this current, relatively unused practice, which is therefore of value.

**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.)***

#### **AUASB Responses**

- 4.1 The AUASB is supportive of the inclusion of Auditor Commentary for the reasons given in our responses to question 3 above.
- 4.2 Where Auditor Commentary is included in the auditor's report, then the AUASB supports the notion that matters to be addressed should be left to the auditor's judgement, with guidance provided in the auditing standards. Guidance should address the question of prioritising Auditor Commentary items. The AUASB supports the notion that in determining the scope and content of Auditor Commentary, the auditor starts with their communications with the Audit Committee.
- 4.3 Guidance in the auditing standards should, as a minimum, address the following matters:
- (a) In respect of the Auditor Commentary:
    - (i) How to determine user needs;
    - (ii) How to determine what is "significant", especially in the context of the financial statements taken as a whole;
    - (iii) Considering the potential for misinterpretation;

- (iv) How to guard against subjective views that counter information in the financial statements;
  - (v) How to determine the accuracy and completeness of Auditor Commentary information;
  - (vi) How to determine consistency of Auditor Commentary with other information provided by management, especially that in the financial report;
  - (vii) Avoiding duplication of, or contradiction with, information available elsewhere;
  - (viii) Considering the extent of information (for example: the level of detail, key points only or exceptions);
  - (ix) How to deal with the potential commercial sensitivities of information;
  - (x) How to avoid the risk of implying the auditor is predicting future events or conditions;
  - (xi) How to avoid the risk of implying that the auditor is providing some form of guarantee or additional assurance;
  - (xii) How to deal with legal considerations, especially matters relating to legal professional privilege; and
  - (xiii) How to ensure completeness and accuracy of “plain English” wording and use of terminology.
- (b) How the auditor is to resolve differences of opinion with management over the emphasis and scope of information to be provided in the Auditor Commentary.
  - (c) How to disclose differences of opinion about the Auditor Commentary.
  - (d) How to avoid blurring the lines of management and auditor responsibilities and clarify the auditor’s audit objective(s). This includes the concept that auditors should not originate entity information as this could be seen as undermining the authority and responsibility of management/TCWG.

**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.)**

**AUASB Responses**

- 5.1 In its consultations with constituents, the AUASB notes that regulators and investors are supportive of information about auditor judgements and procedures.
- 5.2 The AUASB considers the ITC examples are not sufficiently specific and therefore do not maximise the enhancement in informational value.
- 5.3 The AUASB makes the following points in relation to the illustrative examples in the proposed auditor’s report:
  - (a) *Outstanding Litigation.* The example commentary provides an alternative to the existing option of an Emphasis of Matter paragraph currently available to the auditor (ISA 706).

- (b) *Goodwill*. Some stakeholders believe there is benefit in bringing together a number of matters disclosed separately, namely:
- (i) The acquisition of a significant operation;
  - (ii) Attributed goodwill and its classification as material to the financial statements as a whole;
  - (iii) The annual impairment test described in the significant accounting policies and the complexity and high judgemental nature of such a test;
  - (iv) Explicit information on the discount rate used (this assumption being the most significant impact on the estimate);
  - (v) Current economic conditions discussed in the financial statements; and
  - (vi) The potential for a future negative effect on the financial statements.

Other stakeholders believe that it is not the role of the auditor to compile information already disclosed separately in the financial statements – this is perceived as providing little value to users.

- (c) *Valuation of Financial Instruments*. This is an example of how the choice of wording needs to be clarified. For example, there may be confusion as to how “...our firm’s valuation specialists...” can be used to develop “...an *independent* range...” Further details about the specialist(s) would enhance the informational value of the commentary as would disclosing explicit information on the discount rate used (this assumption being the most significant impact on the estimate).
- (d) *Audit Strategy – Revenue, Accounts Receivable and Cash Receipts*. This commentary provides a limited description of audit procedures regarding a “system”, however, the sub-heading states this is the “audit strategy...” Further details about the other audit procedures used, such as verification or analytical procedures, would enhance the informational value of the commentary. However, disclosure of information about a new system may not enhance the informational value to users as it may be perceived to be too detailed.
- A user comparing this “strategy” to that of another auditor may be confused and incorrectly assume one auditor’s approach as better quality than another auditor.
- (e) *Involvement of Other Auditors*. The AUASB is supportive of limited disclosure – refer our comments provided at question 13.

5.4 The AUASB is concerned that describing auditor judgements and procedures in an Auditor Commentary without appropriate introductory caveats may be problematic. It is important that users understand that singling out one line item or topic included in the Auditor Commentary does not represent a separate opinion on that matter, thereby not contributing to the expectation gap. Guidance should be provided on this in the standard.

*Reasons:*

- (a) Auditor judgements and procedures are complex and interrelated. They are performed and concluded upon by professionals who bring to bear their skills, knowledge, judgement and scepticism in a well-accepted approach to the provision of independent assurance. Care should be taken to summarise the numerous factors that contribute to auditor conclusions in order that they should not be taken to be the exclusive work performed in respect of the subject matter.
- (b) Auditor explanations may be expressed in technical jargon that users would generally not understand. This would not enhance the informational value of the auditor’s report.



- (c) Auditor judgements and procedures on specific matters may divert attention away from the audit objective of expressing an opinion on the financial statements *as a whole* and give the impression that auditor's opinions are now becoming piecemeal on specific topics or areas within the financial statements.

**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.)***

## AUASB Responses

6.1 The financial reporting implications of Auditor Commentary may include:

- (a) Delays in meeting financial reporting deadlines, due to the time required to finalise the Auditor Commentary:
- (i) To meet quality and value imperatives, some elements of the Auditor Commentary may only be able to be completed once the financial statements and all other management/TCWG reporting responsibilities, such as the directors' report and stock exchange disclosures, have been completed.
  - (ii) In order to ensure Auditor Commentary is not inappropriate, inconsistent, inaccurate or incomplete, the auditor will need additional time for consultation with both management/TCWG and the audit firm's own risk management and quality control reviewers.
- (b) Increases in costs:
- (i) In view of the nature and implications of Auditor Commentary, it is likely that only partners and senior personnel from both the audit firm and senior management from the entity will be involved.
  - (ii) The audit firm's quality control policies and procedures will add another layer of cost to the engagement.
  - (iii) In the initial years of implementation, there are likely to be costly inefficiencies while firms and entities work through the entity-specific issues and establish policies and procedures that are efficient and effective. Smooth-running routines will take time to develop.
- (c) Complications with auditor/client relationships. Without comparable changes to required disclosures in the financial reporting framework, there is a risk of disagreement(s) between the auditor and management/TCWG as to the scope and content of the Auditor Commentary. This applies to both the Auditor's Commentary to assist users to understand the financial statements; and to provide information about auditor judgements and procedures regarding entity specific matters and the audit process.
- (i) Preparers may compare their legal reporting obligations with Auditor Commentary and express concern at a perceived change in roles. Unease might occur where management/TCWG consider that the auditor has, or is perceived to have, encroached on the (statutory) responsibilities of TCWG by extending, or appearing to have extended, the audit objectives beyond that of expressing an opinion on the financial statements; or commenting on a matter which is not already included in the financial statements.
  - (ii) Auditors should avoid merely duplicating the information in the financial statements which would be of little value and incur unnecessary cost.

- (iii) Management/TCWG may try to insist on some form of influence or input to the Auditor Commentary. Such a situation may strain auditor and client relationships as the auditor's work is bound by the independence rules.
- (iv) Any disagreements between management/TCWG may result in changes to the financial statements to avoid reference in the Auditor's Commentary. This situation may adversely affect auditor/client relationships, but could be of benefit to improved financial reporting.
- (v) There is uncertainty as to the right of recourse for management/TCWG to inform users of their disagreement with the Auditor Commentary.

**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.)**

### AUASB Responses

7.1 The AUASB supports the ITC proposal to mandate the Auditor Commentary for PIEs.

There are divergent views among stakeholders as to whether auditors of other entities should have the option to include Auditor Commentary. It is important that any changes to the auditing standards (ISAs) provide for jurisdictional flexibility in determining the definition of PIEs and the inclusion of Auditor Commentary for entities that are not PIEs.

7.2 The auditor, applying professional judgement, should be required to determine the appropriate level of information (form and content), taking into consideration the information needs of existing and potential users.

7.3 The principal objective of an audit is to opine on the financial report, particularly on its conformity with the relevant financial reporting framework. The fundamental *principles* adopted by auditors complying with auditing standards, do not differ due to the size or type of entity – professional judgement; risk-based approach; evidence; documentation; and reporting etc.

7.4 Although application of those principles is scalable in accordance with the circumstances of the engagement, the AUASB supports consistency of reporting to reinforce to users that the *level of assurance* and *audit quality* do not differ according to an auditor's arbitrary determination of an entity's size or type.

*Suggestion:*

7.5 In determining the appropriate information to include in the Auditor Commentary, the auditor should take into consideration whether the financial report is prepared as a general purpose or special purpose financial report.

*Reasons:*

- (a) Where, as in the case of many small and medium sized entities (SMEs), management and ownership are not separated, Auditor Commentary on a special purpose financial report may be of little value due to the existence of alternative auditor/client communications and the ability for users to command their required information.
- (b) In the public sector, auditors may be required to report on an entity's operations or provide other Auditor Commentary in a report that is separate from the auditor's report containing the opinion on the financial statements. In such cases, duplication of information may be of little value to users.

- (c) In the case of listed companies, for example, there are numerous other requirements for companies to provide information - such as the continuous disclosure requirements of many stock exchanges. In developing the Auditor's Commentary, the auditor would need to be acquainted with what the entity has disclosed to the market.

**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.)**

#### AUASB Responses

- 8.1 The AUASB agrees there is value in providing enhanced information on the concept of going concern.
- 8.2 The AUASB believes that improvements in information about going concern should be achieved through improved disclosures made by management/TCWG in the financial statements. Such disclosures should be required by the IFRS framework.
- 8.3 Disclosures should describe the processes used and judgements made by management in their evaluation of going concern. Management could disclose information on the data used, assumptions made, approach used and any significant differences from methods used in the prior year. Enhancements to the auditor's report would then complement such additional disclosures.
- 8.4 In this way, auditors would not be the originator of information about the entity, but could provide valuable information about their own assessment and concurrence with management's assessment of going concern as disclosed in the financial statements. This would be consistent with the existing requirements in ISA 570.
- 8.5 The auditor's statement on going concern should include the period considered by management and the auditor. In Australia, the auditor is required to consider the period of approximately 12 months from the date of the auditor's current report to the expected date of the auditor's report for the next annual reporting period; or the corresponding period for the following year in the case of an interim reporting period. It is recognised that the relevant time period may differ in other jurisdictions.
- 8.6 We believe the IASB should be encouraged to enhance its definitions of "going concern" and related terminology.

**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.)**

#### AUASB Responses

- 9.1 The AUASB is not supportive of including *additional information* about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified – when "...certain events or conditions nevertheless have been identified that may cast significant doubt on the entity's ability to continue as a going concern." (ITC paragraph 31).

##### *Reasons:*

- (a) As indicated in paragraph 31 of the ITC, it will be difficult for an auditor to avoid disclosing entity-specific information that has not been previously disclosed by the management. "Near miss" information introduced by the auditor will be very difficult to determine and is not supported by requirements in the existing financial reporting framework.

- (b) It is doubtful that users will adequately understand the distinction between a going concern *problem* that results in disclosing a material uncertainty and a (potential) going concern *issue* that has been considered by the auditor and found not to be a material uncertainty.
- (c) There is a risk that users may misinterpret commentary of this nature made by the auditor. The mere suggestion that there are “certain events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern” is likely to result in an unintended influence on users.

For example: When comparing investment options, a user’s decision-making is likely to be affected by the existence of such commentary in the auditor’s report on one entity but not another, even though in both cases the auditor concludes no material uncertainty exists.

- (d) The risk of litigation increases when an auditor describes the judgements and procedures the auditor has used to conclude that there is no material uncertainty, and subsequently the entity does experience going concern problems. With this increase in litigation risk, there may be a likelihood that auditors will defer to a more conservative reporting approach by opting to disclose possible material uncertainties rather than explaining how they concluded a *possible* material uncertainty did not result in an *actual* material uncertainty.
- (e) There is a risk that additional Auditor Commentary will put unnecessary pressure on auditor and entity relationships as those charged with governance may be sensitive to the precise wording chosen by the auditor.

This potential problem could be exacerbated by the existing requirements in the Accounting Standards for preparers to disclose *only* material uncertainties that *exist*.

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

**AUASB Responses**

- 10.1 The AUASB supports a statement in relation to “other information”, however, suggests it is included within the section on auditor responsibilities.
- 10.2 As the objective of the proposed statement in the auditor’s report is to provide users with an understanding of the auditor’s responsibilities and procedures in relation to “other information”, then the proposed wording is better located within the auditor responsibilities section. In this way, the auditor’s work on “other information” is not given priority over other areas of auditor responsibility that rank equally in importance.
- 10.3 The proposed wording is likely to have value in the first year of implementation but may become boilerplate in future years with a consequential reduction in its ongoing value to users.
- 10.4 As the objective is to assist users interpret the auditor’s work as providing valuable information in making decisions, the proposed wording could be enhanced. Consideration should be given to expanding the information to describe:
  - (a) The reasons the auditor considered the specified documents.
  - (b) Any identified material inconsistencies that resulted in changes to the financial statements or other information.
  - (c) The meaning of “material inconsistency” and whether it comprises differences of opinion, misstatements of fact, or both.
- 10.5 The proposed wording states that the auditor has “read” the other information. There is a risk that users will question why the auditor only “reads” the other information, especially when the other

information contains numerical analyses. In such instances, users may expect the auditor to conduct some form of substantiation. It is recognised that the IAASB has approved an exposure draft on ISA 720 which proposes to broaden and clarify the scope of documents to be addressed by the auditor, enhance the auditor’s work effort, and introduce reporting requirements.

*Suggestions:*

- 10.6 Reference to “other information” in an auditor’s report could include further information to address potential misunderstanding by users of the scope and nature of an auditor’s work effort.
- 10.7 The auditor’s report could be supplemented by a contextual framework on auditing, to describe the auditor’s responsibilities regarding “other information”. [See comments at question 2 above.]

**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.)***

**AUASB Responses**

- 11.1 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. The enhancements will assist in reducing the “expectation” and “information” gaps.
- 11.2 Even though the descriptions may be boilerplate, the AUASB believes they provide valuable context to the auditor’s processes and should not be removed from the auditor’s report - preferably relocated to an appendix. It is recognised that other jurisdictions may have a different view; however, global consistency of approach would not be crucial to the value of the auditor’s report.

*Suggestions:*

- 11.3 There may be additional value in further enhancements to the descriptions of auditor responsibilities and procedures. In particular, consideration should be given to including guidance material on the concepts of professional judgement; professional scepticism and the persuasiveness of audit evidence.
- 11.4 In addition, consideration should be given to a glossary of terms used in the auditor’s report such as “material”, “misstatement”, “material uncertainties”, “significant doubt” and “going concern”. A glossary would best be located in an appendix to the auditor’s report; however location on an appropriate website may be suitable in some jurisdictions.

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

**AUASB Responses**

- 12.1 In Australia, the *Corporations Act 2001* requires the auditor to sign the auditor’s report in both their own name and the name of their firm/audit company. This long-standing requirement has also become common practice in non-statutory audits.
- 12.2 The ISA 700 guidance paragraph A37 applies in Australia and so where appropriate, an auditor may sign in their own name or the name of their firm/audit company (unless a statutory corporate audit as described above).
- 12.3 Accordingly, the AUASB supports disclosing the name of the engagement partner. It is recognised that impediments may exist in other jurisdictions and therefore this matter could be dealt with under the “building blocks” approach.

**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.)**

**AUASB Responses**

13.1 The AUASB is supportive of limited disclosure of the involvement of other auditors, especially where other auditors perform a significant portion of audit work. However, such support is in the context of the existing requirements in ISA 600.

*Suggestion:*

13.2 In order to preserve the “sole responsibility” principle, disclosure requirements should be limited to:

- (a) Disclosure of the use of other auditors *only when* the other auditors perform a “significant” amount of work that contributes to the overall opinion.
- (b) As proposed in the ITC, a clear statement that the auditor is responsible for the opinion and obtaining sufficient appropriate audit evidence when other auditors are used.
- (c) A high-level indication of the geographic, entity and/or operational area where the other auditors were involved.

13.3 Disclosure of the name(s) of other auditors and percentages of overall audit work; or other details, is not supported because of the unavoidable risk of users misinterpreting the information – an unnecessary diversion as the (group) auditor retains all responsibility.

13.4 It is recognised that the “sole responsibility” concept may not exist in other jurisdictions. Accordingly, in those jurisdictions, the auditor’s report should contain general information to assist users’ understanding of the group audit arrangements.

**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.)**

**AUASB Responses**

14.1 The AUASB is supportive of:

- (a) The enhanced auditor’s responsibility section of the proposed auditor’s report; and
- (b) Including this information in an appendix to the auditor’s report.

14.2 The AUASB does not support *removal* of the information from the auditor’s report in order to relocate it to an appropriate website.

*Reasons:*

- (a) As indicated in the ITC, any additional information that describes the auditor’s responsibilities and clarifies certain technical terms will contribute to narrowing the “expectation gap” relating to transparency of the audit process and enhanced understanding of the auditor’s role and the nature of audit work.

In order to improve the auditor’s report and narrow the “expectation gap”, the information must be readily available for all users to access *concurrently* when reading the auditor’s report.

- (b) Locating the enhanced auditor’s responsibility section in an appendix that is integral to the auditor’s report, provides important context for the audit opinion and is considered the best option because the information is likely to:
- (i) Become boilerplate; and
  - (ii) Be longer than currently required by ISA 700, so if left in the body of the auditor’s report, may distract from the other information in the auditor’s report that is unique to the current audit.
- 14.3 Although the AUASB’s preference is for descriptions of responsibilities and glossary of terms to be included in the auditor’s report, it recognises that other jurisdictions may require a different approach. Accordingly, the AUASB supports the “building blocks” approach to enable jurisdictions to determine whether such information is to be included in the auditor’s report; or that reference is made in the auditor’s report, to an appropriate website, such as that of the national standard setter.

**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.)***

**AUASB Responses**

15.1 The AUASB supports the placement of the auditor’s opinion and basis of opinion paragraphs at the beginning of the auditor’s report, as well as the other paragraphs as proposed in the illustrative auditor’s report. The suggested arrangement is appropriate to emphasise the various matters in their order of importance.

*Suggestions:*

15.2 In order to avoid any ambiguity about the auditor’s role and the objective of the auditor’s opinion aimed at the entity’s compliance with the relevant financial reporting framework, consideration could be given to restructuring the proposed auditor’s report so that responsibilities, audit procedures and any Auditor Commentary are located in an appendix in the auditor’s report.

In this way, the user is given a clear and globally consistent auditor’s report comprising 3 or perhaps 2 distinct but interrelated sections:

**Section 1: The Auditor’s Opinion**

Comprises the opinion and any modification (and emphasis of matter if retained in its current form) – this represents the outcome of the engagement contract, consistency with the understanding of the majority of current users and is easily compared globally. Also included in the first section of the auditor’s report, would be the basis for conclusion paragraph.

**Section 2: The Appendix - [Part A]**

- Entity-specific Auditor Commentary and specific audit procedures.

**Section 3: The Appendix – [Part B]**

Comprises contextual information related to, and supporting, Section 1.

- responsibilities (both of management/TCWG and of the auditor);
- general audit procedures;
- glossary of terms

- 15.3 In this way, a structure is developed to bring together the objectives of (a) meeting the statutory audit obligations; and (b) providing relevant, yet *limited*, information driven by user needs and auditor discretion.
- 15.4 By clearly distinguishing the sections in an auditor’s report, *appropriate headings and introductory wording* can be used to ensure users are not confused as to the auditor’s conclusion on the financial statements, and link helpful, yet *limited*, information in relation to *certain aspects* of the audit. Suitable caveats would help users’ understanding and contribute to reducing any assumption that the information is comprehensive in communicating all audit procedures/steps performed.
- 15.5 Such an approach with appropriate introductory preface may be helpful in dispelling auditor fears of litigation.

**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.)***

**AUASB Responses**

- 16.1 The AUASB supports global consistency in auditors’ reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs are used.
- 16.2 The AUASB also supports:
- (a) The “building blocks” approach which helps achieve comparability of auditors’ reports while allowing jurisdictions the ability to further tailor auditor reporting requirements within the context of national environments; and
  - (b) The mandating of minimum requirements. The core elements of an auditor’s report should be recognisable and comparable across entities and jurisdictions.
- 16.3 The “building blocks” approach is favoured over an approach that dictates a rigid globally-consistent section in the auditor’s report followed by a flexible section that allows free tailoring to meet jurisdictional requirements.
- Reason:*
- 16.4 The comparability facilitated by the buildings block approach will be of particular assistance in a group audit situation, especially when it is cross-border. The approach will enable group auditors to quickly assess core information in the auditor’s report and to evaluate the effect of jurisdictional reporting on the group audit.

**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.)***

**AUASB Responses**

- 17.1 The AUASB supports the IAASB mandating the ordering of items in the auditor’s report unless law or regulation require otherwise.
- 17.2 Mandating the order of items in an auditor’s report is integral to the global consistency approach commented on, and supported, in our response to question 16 above.
- 17.3 The proviso (“...unless law or regulation require otherwise”) together with the “building blocks” approach are sufficient to accommodate differing national reporting requirements or practices.



*Suggestions:*

- 17.4 The current requirements contained in ISA 210 paragraph 21 are an important input to this question. Under ISA 210, the auditor is required to assess whether the layout or wording of a prescribed auditor's report is such that users might misunderstand the assurance obtained from the audit; and if so, whether additional explanation in the auditor's report can mitigate possible misunderstanding.
- 17.5 The AUASB suggests that a revision to the auditor's report (mandating the ordering of items) should be accompanied by a similar requirement to that in ISA 210.

**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.)***

**AUASB Responses**

- 18.1 The IAASB's suggested improvements are appropriate for PIEs. However, stakeholders have divergent views as to whether auditors of other entities should have the option to implement some, or all, of the auditor reporting enhancements. As the ISAs apply to all audits, the core elements of the audit report should be applied to all audit reports. The "building blocks" approach is an appropriate way to enable relevance to be maintained.

**Navigating the Financial Statements**

*Reasons:*

- 18.2 The objective of assisting users to "navigate" the financial statements does not appear to provide much value, especially in terms of benefits over cost, for entities where:
- (a) Management and ownership are not separated.
  - (b) Special purpose financial statements are prepared. The users are, by definition, able to obtain the information they need to make their economic decisions.
- 18.3 Conversely, the "navigation" objective has appeal in the case of general purpose financial statements in both the public and private sectors, where the financial statements are designed to meet the common financial information needs of a wide range of users, who are unable to otherwise obtain the information they need to make their economic decisions.

*Suggestions:*

- (a) Any amendments to the ISAs in relation to "navigating" the financial statements could be driven by the status of the financial statements (general purpose/special purpose), not by the entity's classification as a PIE or SME; or private or public sectors. Requirements should be *mandatory* for general purpose financial statements and *discretionary* for special purpose financial statements.
- (b) A building blocks approach would facilitate the mandatory/optional choices.

**Auditor Commentary**

*Reasons:*

- 18.4 The objective of providing information about the audit to users of the financial statements may not be appropriate in (certain) public sector or regulated entities where:

The auditor is subject to reporting mandates that require:

- (a) Separate reporting of a nature similar to that proposed in parts of the ITC to:
  - (i) Parliament or other publically accountable government; or
  - (ii) A regulator who prescribes the form and content of the auditor's report.
- (b) Separate engagements, and associated reporting, on the entity's performance (such as efficiency and effectiveness reviews).

*Suggestions:*

- (a) Any amendments to the ISAs to provide information about the audit, similar to the Auditor Commentary referred to in the ITC, should be driven by the reporting mandates of the entity, not the classification of the entity as a PIE or SME.
- (b) Where management and ownership are not separated; or where other reporting mandates are not, in the auditor's opinion, sufficient to meet the Auditor Commentary objectives, the ISAs should provide flexibility that focuses on the users' needs.
- (c) The "building blocks" approach would facilitate the mandatory/optional choices and enable the relevance of the Auditor Commentary to be maintained.

- 18.5 The ITC's proposal for the auditor to highlight the existence of material uncertainty applies to all size entities or sectors.

*Reason:*

- (a) The objective of the proposal is to bring to users' attention, a matter of importance and accordingly, the size and sector of an organisation; and the type of financial statements being audited, do not impact this objective.

*Suggestion:*

- (b) The ITC proposal regarding material uncertainties should be applicable to all audits.

**Other Elements of the Proposed Auditor's Report**

- 18.6 The following elements in the proposed auditor's report should be applicable to all size entities and sectors:

- (a) Relocation and wording of the opinion and basis for opinion paragraphs;
- (b) The auditor's work on "other information";
- (c) The auditor's and management's responsibilities; and
- (d) Reporting on Other Legal and Regulatory Requirements.

*Reasons:*

- 18.7 The proposed elements in the revised auditor's report (listed above) are not affected, to any great extent, by entity size; the sector in which the entity operates; or the type of financial statements produced.
- 18.8 The costs associated with these elements of the revised auditor's report are unlikely to be any different from existing costs.
- 18.9 The responsibilities section is likely to be standardised boilerplate wording that does not require significant work effort.

*Suggestion:*

- 18.10 The ITC proposal regarding the elements of an auditor's report listed above should be applicable to all audits.

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**Editorial Suggestions:**

1. The first sentence under the heading “Auditor’s Responsibility” quite rightly refers to material misstatement, however, goes on to say “...and to issue an auditor’s report that includes our opinion”.

An uninformed user may read the *emphasis* of this sentence as pointing to the auditor searching for material misstatement (only).

To improve the educational value of this sentence, the wording of the auditor’s overall objective as described in ISA 200 paragraph 11(a) should be used – namely:

“...fraud or error, thereby enabling the auditor (or ‘us’) to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an (‘the’) applicable financial reporting framework”.

Using the ISA 200 wording:

- a) Clarifies *why* the auditor searches for misstatements;
  - b) Provides a valuable linkage to the section in the auditor’s report that describes the auditor obtaining sufficient appropriate audit evidence in order to form and express an opinion; and
  - c) Provides a valuable linkage to the financial report responsibilities section relating to management/TCWG.
2. The second paragraph describing the auditor’s responsibilities begins with: “...As part of an audit in accordance with ISAs...”

To clarify that professional judgement and professional scepticism are fundamental principles used throughout the audit, the AUASB suggests the following words are added:

“...As **an integral** part of an audit in accordance with ISAs...”

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