



## FUTURE OF AUDIT

### SUMMARY OF RECOMMENDATIONS

#### Introduction

The following table (first 3 columns only) is copied from the Board papers at Agenda Item 12, AUASB meeting on 7 December 2009. The table below is an extract of only those issues where the authors of FOA have suggested responsibility lies with the AUASB or jointly with other organisations. The numbers in column 1 are references to the “Summary of Report Chapters”. Columns 2 and 3 are direct copies from the “Summary of Recommendations”. Commentary is provided by the AUASB Technical Staff.

Ref	Issue	Conclusion/Policy/Action
3.2	Audit report wording is standardised/commoditised which hides the degree of auditor judgement involved in relation to a specific auditee, ignores the diversity of the audience in terms of motivation for and capability of understanding of audit outcome information and uses terms that can be misconstrued (e.g. material misstatement, test basis).	Amend audit reporting standards to encourage more nuanced and auditee-specific audit reports in order to encourage reading by target audience. Perhaps this should be in the form of appendices to a standardised report (Refer also Recommendation 3.5).
<p><b>Commentary</b></p> <ol style="list-style-type: none"> <li>1. The underlying concept of a “general purpose financial report” applies equally to auditor’s reports.</li> <li>2. An auditor’s report on a GPFR is intended to be a standardised summary of the auditor’s professional doctrine comprising principles, procedures, rules and judgements. To change the concept of a standardised report will likely result in a plethora of selective narrative that will not facilitate meaningful comparison of financial reports (which include auditor’s reports).</li> <li>3. The purpose of the auditor’s report is to express an opinion on the financial report, not to digress into detailed explanatory information about the auditor’s approach.</li> <li>4. The notion of “general purpose” recognises, not ignores, the diversity of audience.</li> <li>5. The comment that the current auditor’s report wording <i>hides the degree of auditor judgement involved in relation to a specific auditee</i> implies a conscious policy of incomplete information – not the case. The auditor’s report clearly states: “The procedures selected depend on the auditor’s judgement”.</li> <li>6. It is not clear how the <i>degree</i> of auditor judgement could be stated in any meaningful way. Any attempt to describe the auditor’s judgement in auditee-specific terms begs the question “why?” Is the objective to prompt users to try to determine whether the degree of judgement is too much, too little, incomplete, incorrectly applied etc? Will the user attempt to compare the stated degree of judgement with that stated in different terms by the same, or different, auditors in the context of similar, or different, auditees?</li> </ol>		



<p>The usefulness of this suggestion is difficult to determine.</p> <ol style="list-style-type: none"><li>7. The point made on terminology is valid.</li><li>8. The reporting requirements and the suggested format of the auditor's report included in the Australian Auditing Standards are consistent with the equivalent international standards. This is a requirement of the AUASB's mandate (ASIC Act and the Strategic Direction).</li><li>9. In the UK, auditor's reports are not required to include details of the auditor's responsibilities (as is the case in Australia). Instead, the auditor's report may refer to other information (held on the Auditing Practices Board Website) which explains the auditor's responsibility etc.</li><li>10. Under "clarity" (ASA 706) a new section of the auditor's report came into being, namely an "Other Matter Paragraph". The standard describes this section of the auditor's report as where the auditor may provide information about the audit, the auditor's report and the auditor's responsibilities. <b>Note:</b> The section is explicitly for information other than that found in the financial report.</li></ol> <p><b>A. AUASB Technical Staff Conclusion:</b> Significant changes to the auditor's report, as suggested, are not warranted at this time. <b>However</b>, an alternative approach to addressing the question should be considered.</p> <p>The core issue raised by the FOA is that of user education and perhaps the principle used in the UK, described in point 9 above should be explored to this end.</p> <p>An authoritative document could be produced and published on the AUASB website that describes such concepts as the auditor's judgement, materiality and the test basis. Auditors would then have a choice as to whether their audit reports remain "status quo" or refer to the AUASB website information. For example:</p> <p style="padding-left: 40px;"><i>This auditor's report is to be read in conjunction with xxxx (name of document and AUASB website location) which summarises the auditor's responsibilities and procedures; and the principles adopted in conducting an audit...etc.</i></p> <p><b>Attachments.</b> Attached to this table for information are:</p> <ul style="list-style-type: none"><li>◇ the relevant extract from the UK Auditing Standard 700; and</li><li>◇ a copy of the UK web site explanatory document.</li></ul> <p><b>[See Attachments at Agenda Item 12.2] <a href="#">Updated to 25 July 2011</a></b></p> <p>This approach would enable the AUASB to:</p> <ul style="list-style-type: none"><li>◇ address the issue raised by the FOA;</li><li>◇ control the form and content of the "explanatory" information; and</li><li>◇ leave the existing auditor's report intact.</li></ul> <p style="text-align: center;">***</p> <p><b>B. AUASB Technical Staff Conclusion:</b> Consideration should be given to whether or not the AUASB should encourage (through guidance material) the use of "Other Matter Paragraphs" to communicate the FOA suggestions.</p> <p>Such consideration should include extensive consultation with practitioners as to whether there is an appetite to provide <i>nuanced and auditee-specific</i> information (regardless of the location of such information).</p> <p>[Conclusions A and B above should be read in conjunction with the comments and</p>
---



conclusions at 4.1 and 4.2 below.]

UPDATE

The IAASB has issued a Consultation Paper: *Enhancing the Value of Auditor Reporting: Exploring Options for Change*. (May 2011)

The consultation paper seeks to determine whether there are common views among users of audited financial statements and other stakeholders about the usefulness of auditor reporting. It describes issues with current financial reporting, including a perceived “information gap,” identified by some stakeholders. It then sets out possible options for change and seeks input as to whether such options might be effective in enhancing auditor reporting and the communicative value of the auditor’s report.

The AUASB held roundtable discussions on 28 June 2011. In attendance were invited participants from the profession, the Accounting Bodies, ASIC and Treasury.

Overall, there was little support for changes to the auditor’s report [See July 2011 AUASB Agenda Item 12(c)(ii).1 for summary of comments]

Further AUASB consultation is planned for August with constituents from the following ranks: executives (incl. Board audit committees), financial analysts and financiers.

AUASB Technical Staff Recommendation: This issue will be addressed as part of the IAASB project on Auditor Reporting. (Comments are due on the IAASB consultation paper by 16 September 2011 and will be considered by the IAASB, along with a project proposal, in December 2011).



Ref	Issue	Conclusion/Policy/Action
3.4	Generalised non-reading of the auditor's report – potential to miss emphasis of matter paragraphs	Consider the current guidance on location and highlighting of emphasis of matter paragraphs to ensure they are conspicuous
<p><b>Commentary</b></p> <ol style="list-style-type: none"><li>The <u>main</u> sub-headings (in bold) differentiate the 2 parts of the auditor's report, namely: (a). <b>Report on the Financial Report; and</b> (b). <b>Report on Other Legal and Regulatory Requirements</b></li><li>Under "clarity" (ASA 706), an emphasis of matter paragraph is identified by an italicised sub-heading in the same way as the following components of the auditor's report:<ul style="list-style-type: none"><li>◇ <i>Management's Responsibility</i></li><li>◇ <i>Auditor's Responsibility</i></li><li>◇ <i>Independence</i></li><li>◇ <i>Basis for Qualified Opinion</i> (where applicable)</li><li>◇ <i>Opinion</i></li><li>◇ <i>Emphasis of Matter</i> (EOM)</li></ul></li><li>Under paragraph 7(a) of ASA 706 ("clarity"), the EOM paragraph must follow the opinion paragraph. This is the same requirement as in the equivalent international standard - ISA 706.  It should be noted that FOA preceded the "clarity" standards. Although ASA 701 para. 8 and the illustrative auditor's reports in that standard (pre-existing standards) indicate that an EOM paragraph should be include <i>after</i> the opinion paragraph, there was no "requirement" as such for this positioning. Accordingly, there are many instances in 2009 audit reports that include an EOM paragraph <i>before</i> the opinion paragraph.</li><li>In the context of a special purpose financial report (SPFR), an EOM is now required to make users aware of the use of a special purpose framework in the preparation of the financial report.</li><li>The Australian standards conform with the equivalent ISAs</li></ol> <p><u>AUASB Technical Staff Conclusion:</u> An EOM paragraph <i>is</i> conspicuously placed in the auditor's report. Caution should be taken with any further "highlighting" because this will effectively accentuate an EOM over other equally important components of the auditor's report (see list above).</p> <p>No action necessary at this time.</p> <p><a href="#">AUASB Technical Staff Recommendation: Remove this item from the Matters Arising.</a></p>		



Ref	Issue	Conclusion/Policy/Action
3.5	The standardised audit report wording uses terms that can be misconstrued and hence which may contribute to the audit expectations gap. In particular, there is evidence of misunderstanding of the use of the terms ‘reasonable assurance’, ‘material misstatement’ and ‘test basis’.	Change wording within the auditor’s report to minimise the audit expectations gap (e.g. ‘This audit is a certification of the X percentage probability of the absence of misstatement in the financial report above an absolute aggregate dollar value of Y’ or “We are X per cent confident that there are no misstatements in the financial report above an absolute dollar value of .....”).
<p><b>Commentary</b></p> <p>Refer comments and conclusions at 3.2, 4.1 and 4.2. <a href="#">See also update comments at these references.</a></p> <p><u>AUASB Technical Staff Conclusion:</u> The auditor’s report does not appear to be the best mechanism to condense educational or explanatory material. An alternative document scenario is a more practical solution.</p> <p><u>AUASB Technical Staff Recommendation:</u> <a href="#">This issue will be addressed as part of the IAASB project on Auditor Reporting. (Comments are due on the IAASB consultation paper by 16 September 2011 and will be considered by the IAASB, along with a project proposal, in December 2011).</a></p>		

Ref	Issue	Conclusion/Policy/Action
3.6	Several Suppliers’ comments indicate that they do not understand that authorities in Australia view the external audit as a form of ‘delegated regulation’ (Knott 2002). In Australia, audit is privileged by a mandate in many cases (that is, is required by legislation), has the shareholder as its centre as the client, and always is the beneficiary of restraint of trade policies (that is, only appropriately qualified persons can sign an audit report). These aspects of the current framework are not well understood by some Suppliers.	Creation and wide dissemination of an overarching, high level, educational piece on the role of audit in Australia’s society, including content in plain English on for which types of entities audit is mandated, the audit process and for suppliers, a section reinforcing the privileged role that audits hold and the rights and responsibilities that level of privilege brings with it.  [Authors question where responsibility lies - FRC, AUASB, Joint Accounting Bodies?]
<p><b>Commentary</b></p> <p><u>AUASB Technical Staff Conclusion:</u> Suggestion has merit and should be discussed by the AUASB. <a href="#">This point should be combined with the similar point raised at 4.1 below.</a></p>		



Ref	Issue	Conclusion/Policy/Action
3.7	Regulators allegedly sometimes do not practice ‘delegated regulation’ but instead dictate ‘detail’ to a point which interferes with audit efficiency, but even more seriously, with audit effectiveness	Despite acknowledged existing mechanisms for communication, greater communication between Regulators and Supplier representatives from both larger and smaller audit suppliers and wider dissemination of feedback to the population of audit suppliers is needed to enhance communication of what each party (regulators and suppliers) is seeking to achieve. [FRC, AUASB, Joint Accounting Bodies]
	<p><b>Commentary</b></p> <p><b>Suggestion is perhaps more appropriately directed to the FRC, ASIC, APRA and the JABs, with the AUASB’s role limited to consultation regarding interpretations of only specific questions regarding the Standards.</b></p> <p>ASIC, APRA and the JABs are much better placed to communicate documentation <i>expectations</i>.</p> <p><u>AUASB Technical Staff Conclusion:</u> No leadership action is required by the AUASB at this time, however, collaborate and responsive action, in conjunction with relevant bodies, seems appropriate.</p>	

Ref	Issue	Conclusion/Policy/Action
4.1 & 4.2	Many of the aspects of audit are not well understood by some Users and Purchasers	<p>[4.1] Provision of collaboratively written, widely available educative material about auditors’ work and process, focused on Users as the audience, written in layman’s language and spelling out important things like the fact that the work involves sampling (arguably a less ambiguous word than ‘testing’), may be particularly risk focused, deals with substantive issues pertaining to that particular industry or entity, and describing what levels of materiality are used and how these are determined. For consideration is whether these descriptions should be specific to the company or might be more generalised for a particular audit firm.</p> <p>[4.2] Provide educational materials in plain English in relation to use of the word ‘material’ and ‘materiality’ in an audit context. [AUASB, Joint Accounting Bodies]</p>



	<p><b>Commentary</b></p> <ol style="list-style-type: none"> <li>1. The conclusions/actions have a degree of merit. The objective of any <i>educative material</i> needs to be clearly articulated.</li> <li>2. Care should be taken in attempting to over-simplify the work of a professional auditor. The whole issue of professional judgement involves a seemingly endless list of considerations and judgements in complex and dynamic environments—the key distinguishing feature compared to a rules-based discipline.</li> <li>3. The point made can be aimed at users of many other professional services. For example, it is reasonable to assume that <i>many aspects of a medical examination are not well understood by some users and purchasers</i>. The same goes for architecture, engineering and law.</li> <li>4. Care needs to be taken that any such educative material is not portrayed as a comprehensive description of how auditors operate. It would be inappropriate for users to try to compare audits using summarised educative information.</li> </ol> <p><b><u>AUASB Technical Staff Conclusion:</u> The AUASB should consider a collaborative project with the JABs.</b></p> <p>In the context of the suggestion at 3.2 above <a href="#">[As updated]</a>, consideration could be given to a “multi-step” approach whereby explanatory documentation could be “linked” in a hierarchical fashion. For example:</p> <p>Level 1: The Auditor’s Report [to include a link to L2]</p> <p>Level 2: UK-style summary of principles and terms held on the AUASB website [linked to L1 and L3]</p> <p>Level 3: Detailed collaboratively written, widely available educative material about auditors’ work and process [linked to L2 and L4]</p> <p>Level 4: The Auditing Standards</p>
--	---

Ref	Issue	Conclusion/Policy/Action
9.2	Companies’ disclosures regarding non audit service fee categories is inconsistent hence reducing comparability.	Provide guidance as to appropriate detailed services that fit within specific classifications.
	<p><b>Commentary</b></p> <p><b><u>AUASB Technical Staff Conclusion:</u></b> Suggestion has merit - AUASB to consider.</p> <p><b><u>AUASB Technical Staff Recommendation:</u></b> <a href="#">AUASB consideration should be in terms of consultation with the regulators (ASIC &amp; APRA) and the AASB.</a></p>	



Ref	Issue	Conclusion/Policy/Action
10.1	Increasingly prescription of audits is seen to ‘distract auditors’ from their tasks.	Evidence should be gathered as to whether the regulatory reforms of earlier this decade have been cost beneficial. [FRC, AUASB]
	<p><b>Commentary</b></p> <p>1. It is assumed that the motivations for the regulatory reforms were not related to, or driven by, the cost of audit.</p> <p>2. An exercise of this type although probably within the scope of the AUASB’s mandate, may need to extend further than implementation of the Auditing Standards. The entire context of the regulatory reforms referred to, would appear to be relevant to such work.</p> <p><u>AUASB Technical Staff Conclusion: The suggestion is perhaps better directed to the JABs with co-operation from the AUASB where relevant. Update: on 5 March 2010, Treasury released <i>Consultation Paper - Audit Quality in Australia: A Strategic Review</i>. The following extract is from the FRC Chairman’s Introduction to the paper:</u></p> <p><u>“Treasury has concluded that our audit regime compares well in terms of international best practice and that no fundamental reform is required. Treasury is of the view that Australia’s financial reporting system and audit regulation is both robust and stable. This is critical in the context of the efficiency of our financial system and Australia’s sound economic growth.”</u></p> <p><u>AUASB Technical Staff Conclusion considered still appropriate.</u></p>	

Ref	Issue	Conclusion/Policy/Action
15.1	Reliance by the external auditor on the internal auditor requires procedures to investigate the competence and level of independence of the internal auditor that tend to negate any efficiencies involved in reliance.	Consider ways in which external auditor reliance on internal audit may be facilitated. This can emanate from both the internal or external audit side of the market
	<p><b>Commentary</b></p> <p>The IAASB is in the process of revising ISA 610 <i>Using the Work of Internal Auditors</i>. The revision project plan seeks to re-issue the standard in 2011.</p> <p><u>AUASB Technical Staff Conclusion: Suggest no work undertaken by the AUASB at this time but to re-consider the FOA suggestion when ISA 610 is released and ASA 610 will need conforming amendments. Update: IAASB issued an exposure draft with comments due by November 2010. The AUASB submitted a formal response. According to the IAASB timetable, ISA 610 is scheduled for approval in December 2011 – (issues are scheduled for the September 2011 meeting).</u></p> <p><u>AUASB Technical Staff Conclusion considered still appropriate.</u></p>	





Ref	Issue	Conclusion/Policy/Action
16.1	There is demand for assurance on various non-financial information types, much of which falls within a 'risk management' framework.	Provide thought leadership by developing subject specific guidance for assurance on certain types of non-financial information within an overarching framework of 'risk management'.
	<p><b>Commentary</b></p> <p>The suggestion has merit.</p> <p>Areas of non-financial information to consider might include:</p> <ul style="list-style-type: none"> <li>◇ APRA (statistics and risk management requirements)</li> <li>◇ Internal controls</li> <li>◇ Compliance with grant contracts (acquittals)</li> </ul> <p><u>AUASB Technical Staff Conclusion: AUASB to consider. Update: The AUASB has already issued subject-specific guidance material – see GS 002 (compliance plans), GS 003 (financial licences), GS 004 (prudential reporting), GS 013 (compliance plans), GS 017 (prudential reporting Life Companies). In addition, there are a number of subject-specific standards – see ASAEs 3100 (compliance), 3402 (controls at service organisations) &amp; 3500 (performance audits); and now ASRS 4400 (agreed-upon procedures).</u></p> <p><u>In addition, there are other projects in progress e.g. GS 007 (service orgs.), GS 009 (SMSFs); and Water Accounting.</u></p> <p><u>AUASB Technical Staff Conclusion considered still appropriate but effectively the AUASB is already addressing the FOA suggestion – it is merely a question of the AUASB work program priorities.</u></p> <p><u>AUASB Technical Staff Recommendation: Given the work already completed, or being undertaken, by the AUASB this item can be removed from the Matters Arising.</u></p>	

Ref	Issue	Conclusion/Policy/Action
17.1	The Auditing Standards constrain the level of assurance to 'reasonable' even where there is client need for something above this level and where the circumstances exist where it can be delivered.	Provide a framework whereby higher than 'reasonable' assurance can be given within Auditing Standards, in circumstances where there is client demand and an ability to deliver at that higher level. It is acknowledged that this suggestion would mean a departure from the assurance framework of the IAASB unless changes were also made at the international level.



### Commentary

1. This would require a significant body of work and consultation.

For example, if compliance with the current Auditing Standards (using *professional judgement* in the application of those standards) produces “reasonable” assurance, what nature and scope of standards will be required to produce something greater than “reasonable”? Will it be necessary to create different standards for each level of assurance, given the differing audit work required to opine using different assurance levels? How could degrees of compliance with such standards be appropriately drafted?

2. Would a unique framework, required to provide different assurance levels, be inconsistent with the AUASB’s mandate to conform to international standards?
3. What currently happens in practice? What types of engagements would be contemplated using “greater than reasonable” assurance?
4. Would the work effort justify the outcome and cost?
5. Would assurance practitioners be comfortable issuing a “greater than reasonable” assurance opinion?

AUASB Technical Staff Conclusion: Due to the nature of this suggestion and the apparent significance of the work load, **conclude that this suggestion is not adopted.**

Update: The AUASB has issued ASRS 4400. Although this standard is not about *providing* assurance per se, it could presumably be used in an agreed-upon procedures engagement that delivers a factual findings report which suites the client’s needs for a “higher-than-reasonable” level of “comfort”. For example, the counting of inventory. This would be an “assurance taken, not given” scenario. In addition, the IAASB is considering levels of assurance within the projects on ISAE 3000 and the International Framework.

AUASB Technical Staff Conclusion considered still appropriate.

AUASB Technical Staff Recommendation: Remove from Matters Arising.



Ref	Issue	Conclusion/Policy/Action
17.2	Agreed-upon procedures engagements cannot provide any assurance	Consider whether ‘agreed-upon’ procedures engagements should be able to provide a level of assurance. It is acknowledged that this suggestion would mean a departure from the assurance framework of the IAASB unless changes were also made at the international level.
<p><b>Commentary</b></p> <p>This project is already on the AUASB’s work programme and has been considered at several board meetings.</p> <p><u>AUASB Technical Staff Conclusion:</u> No additional action required at this time.</p> <p><u>Update:</u> <a href="#">See ASRS 4400.</a></p> <p><u>AUASB Technical Staff Recommendation:</u> <a href="#">Remove from Matters Arising</a></p>		