



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7**
Meeting Date: 10 September 2012
Subject: Improving the Auditor's Report
Date Prepared: 28 August 2012

Action Required

For Information Purposes Only

Agenda Item Objectives

To:

1. Consider the proposed approach to responding to the IAASB's invitation to comment (ITC) on *Improving the Auditor's Report*.
2. Provide initial comments to assist in the preparation of the AUASB's response to the ITC.

Background

To quote from the IAASB Chairman's Statement:

"More than ever before, however, users of audited financial statements are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. The global financial crisis also has spurred users, in particular institutional investors and financial analysts, to want to know more about individual audits and to gain further insights into the audited entity and its financial statements. And while the auditor's opinion is valued, many perceive that the auditor's report could be more informative. Change, therefore, is essential.

The International Auditing and Assurance Standards Board (IAASB) embraces this need for change. A quality audit should be accompanied by an informative auditor's report that delivers value to the entity's stakeholders. The IAASB's clarified International Standards on Auditing (ISAs) establish a strong basis for a single global auditing language, both for the private and the public sectors, and promote robust risk-based audits. But the auditor's report should better explain what an auditor does and enable the auditor to shine light on key matters based on the auditor's work. As the call for change continues to intensify, we know that now is the time to lay the foundation for the future of auditor reporting with an eye toward a meaningful and workable global solution based on the scope of an audit under the current ISAs.

This Invitation to Comment (ITC) sets out the indicative direction proposed for the future auditor's report. It reflects the progress the Board has made in its deliberations to date, based on what it has learned from its research, its May 2011 consultation paper, its ongoing dialogue and outreach activities, and related initiatives of others. The IAASB has identified a number of improvements to auditor reporting and is consulting now to better understand whether users of

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the auditor's report – especially investors, but also regulators, preparers and others – would value these possible changes to auditor reporting. Hearing from all stakeholders at this stage will inform the Board's standard-setting proposals in a way that will best serve the public interest.”

Improvements in the auditor's report have been classified as the highest priority on the IAASB's current work programme.

The IAASB's ITC paper is accessed via the following link:



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Matters to Consider

A. Roundtables and Forums

The AUASB Technical Group has organised the following auditor reporting roundtables and forums:

1. Auditor Reporting Roundtables

Invitees are senior executives from a range of organisations, including professional firms, public sector auditors, professional accounting bodies, members of the AICD, representatives from the Group of 100 and regulators.

The format of the roundtables will comprise a brief speech by Prof. Arnold Schilder on the subject of improving the auditor's report. This will be followed by discussions about the high level principles that the IAASB believe should be promulgated internationally. These improvements are outlined on page 6 of the ITC paper, namely:

- (a) Additional information in the auditor's report to highlight matters that are, in the auditor's judgement, likely to be most important to users' understanding of the audited financial statements or the audit – referred to as the “Auditor Commentary”.
- (b) The auditor's conclusion on the appropriateness of management's use of the going concern assumption, and an explicit statement as to whether material uncertainties in relation to going concern have been identified.
- (c) The auditor's statement as to whether material inconsistencies between the audited financial statements and other information have been identified.
- (d) Prominent placement of the auditor's opinion and other entity-specific information.
- (e) Transparency about the audit performed and clarification of the respective responsibilities of the auditor, management and TCWG.

Timing

- Monday 1 October 2012 (12:00 noon to 2:00 p.m.) Melbourne hosted by CPA Australia; and
- Wednesday 3 October 2012 (12:00 noon to 2:00 p.m.) Sydney hosted by ICAA.

2. Auditor Reporting Forums

Invitees to the forums are senior management from a similar range of organisations. Prof. Schilder will not be in attendance.

The format of these forums will differ due to additional time allocation. The sessions will comprise an opening by the AUASB Chairman, followed by group discussions on the specific questions asked

