

## Auditor Reporting Update

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IAASB Meeting – Agenda Item 9  
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New York, NY

# Project Overview: Where Are We Now?

## Research & Consultation

Academic research  
(2006 – 2009)

Review of national developments /initiatives  
(2009-2010)

Consultation Paper:  
**Enhancing the Value of Auditor Reporting**  
(May 2011)

## Commencement of Standard Setting

Project proposal  
(December 2011)

Task Force and Subcommittee Appointments  
(January 2012)

## Consultation on Indicative Direction

**Invitation to Comment: Improving the Auditor's Report**  
(June 2012)

Comments Due  
(October 8, 2012)

Roundtables  
NY, Brussels & KL  
(September – October 2012)

## Next Steps

Exposure Draft  
(June 2013)

Final Standards  
(June 2014)

Visit the Auditor Reporting Page at [www.iaasb.org/auditor-reporting](http://www.iaasb.org/auditor-reporting) for updates

## Who Have We Met with Since June?

- IFRS Advisory Council
- IOSCO Committee No.1
- Standards Working Group of the Six Largest Accounting Firms
- European Parliament Rapporteur (JURI)
- Company Reporting and Auditing Group
- European Commission Staff
- US AICPA Auditing Standards Board
- Professional Accountants in Business Committee

# Auditor Reporting Roundtables

*Strong representation from various stakeholder groups across many countries, including IAASB CAG*

	New York	Brussels
	40+ Participants	50+ Participants
Users	8	5
Preparers & TCWG	11	7
Regulators & Audit Oversight Bodies	4	12
Auditors, including SMPs	10	11
IFAC Member Bodies & Standard Setters	7	13

# Overview of Roundtable Program

- Chaired by IAASB Chairman
- Three sessions introduced by IAASB Members
  - Auditor Commentary
  - Going Concern & Other Information
  - Clarification & Transparency
- For each session
  - Introduction
  - Panelists remarks to stimulate debate
  - Roundtable discussion
- ITC used as basis for discussion
  - Illustrative auditor's report

## Overall Views

- Strong support for IAASB's efforts – impressed with the clarity and comprehensiveness of the options explored
- Provides a unique opportunity to reinvigorate the public's trust and confidence in the independent auditor and to increase the relevance of the audit
- Commended for bringing together a diverse group of stakeholders and for extensive global outreach activities
- “IAASB should not be doing this alone” – importance of improved and consistent corporate governance and financial reporting cannot be underestimated
- Diversity of views
- Doing nothing is not an option

## Points of View about Auditor Commentary (AC)

### *Why Is AC Needed?*

- Auditors have significant insights about the entity that should be conveyed in the auditor's report
  - More relevant and useful auditor reports can help investors better understand an entity's risks to help them make better decisions
- Auditors' subjective judgments could be more transparent
  - Calls particularly at European Roundtable for more about the audit
- Mixed views on whether AC should be used to help users navigate or understand the financial statements
  - While some see a role for the auditor, others believe that the auditor should not be seen as the authority to tell users what they need to know about the entity
  - Nothing keeping preparers from including a roadmap for users

## Points of View about Auditor Commentary (AC)

### *How Could AC Be Operationalized?*

- Could focus on significant audit risks and how auditor responded to those risks
  - Explain more about the decisions taken to plan and perform the audit
  - Highlight areas involving significant partner-level effort or involvement
- Could focus on accounting policies and estimates that the auditor determines are important
- Could be highly summarized information derived from discussions with TCWG
  - Needs to be flexible based on the entity's circumstances
  - Mixed views on whether this information should be provided by TCWG instead

## Points of View about Auditor Commentary (AC)

### *What Are the Areas of Concern about AC?*

- Preparers and TCWG have primary role of providing information to users
  - Corporate governance regimes, including reporting, vary – but recognition that the oversight role of TCWG is fundamental
  - Recognition that not all audit committees operate the same
- Summarizing information in a meaningful way likely to be difficult
- Making discussions with TCWG more transparent could compromise their effectiveness

## Points of View about Auditor Commentary (AC)

### *What Are the Areas of Concern about AC?*

- “Hidden qualifications” – may be seen as diluting an unmodified opinion or calling it into question
  - Pass/fail nature of an audit is fundamental, so commenting on subjective elements and acceptability of management’s judgments (e.g., where an estimate fell in a range) is inappropriate
- Mixed views as to applicability of AC
  - Strong support for listed entities
  - Mixed views on PIEs: concerns about definition being too broad
  - AC for audits of non-public entities should be voluntary
  - Don’t create differential reporting

## Points of View about Auditor Commentary (AC)

- Strong view that audit fees will increase
  - As owners of the entity, some investors are not opposed to the increase as more information is valued
  - But in many cases, fees are negotiated and paid by management who may be less likely to tolerate a fee increase
  - Reality is that many entities continue to face cost-cutting pressures resulting from economic crisis
- Need to further understand legal implications, particularly in US

## Points of View about Going Concern (GC)

- Auditors have a role to play in reporting information about going concern, but mixed views about how best to do so in light of the current auditing and accounting standards
  - Unless there is some fundamental change in how management reports on going concern, it will be difficult for IAASB to make substantial changes
- Conclusion regarding the use of the going concern assumption
  - Strong support at European roundtable
  - Questions about value at US roundtable
  - Could cause confusion among users if they do not understand what the conclusion means (could potentially widen expectation gap)
- Statement regarding identification of material uncertainties
  - Important to state that no material uncertainty has been identified but may need to do more to address investors' call for early warning signals

## Points of View about Going Concern (GC)

### *How Could GC Reporting Be Operationalized?*

- Information about going concern should not be more boilerplate
- Concern expressed that current EOM model does not provide timely information – reporting threshold should be lowered
- More guidance needed on the terms “material uncertainty,” “significant doubt,” and “foreseeable future”
- Holistic model preferred
  - Management to provide robust and meaningful disclosures about liquidity risks and other matters that bear on an entity’s ability to continue as a going concern
  - Auditor reports should refer to management’s disclosures
  - Such an approach could be less dramatic than an EOM in terms of “negative publicity”

## Points of View about Other Information (OI)

- General support for more explicitly describing the auditor's responsibilities under ISA 720 in the auditor's report
- Proposed improvements to ISA 720 may address concerns
  - Auditor involvement with other information should be more substantive than just "reading"
  - Is it clear that material inconsistency covers matters that are misleading?
- If auditor has other reporting responsibilities for OI beyond ISA 720, they should be differentiated
- Investors use non-GAAP measures to make investing decisions, thus auditor involvement with such information should be explored

## Points of View about Clarifications & Transparency

- Strong support for placement of the auditor's opinion first
- The decision to include identification of the engagement partner, where not current practice, should be determined by individual jurisdictions
  - Emphasis from smaller firm perspective that doing so likely to have implications on audit partner assignments, as “better known partners would be spread too thin”, potentially affecting audit quality
- Mixed views about disclosure of the involvement of other auditors
  - Support for having a generic description about the responsibilities of the group auditor, but limited support for disclosure of other auditors because of ISA 600
  - Information would be most relevant in circumstances where other auditors used were not subject to an inspection regime

## Points of View about Clarifications & Transparency

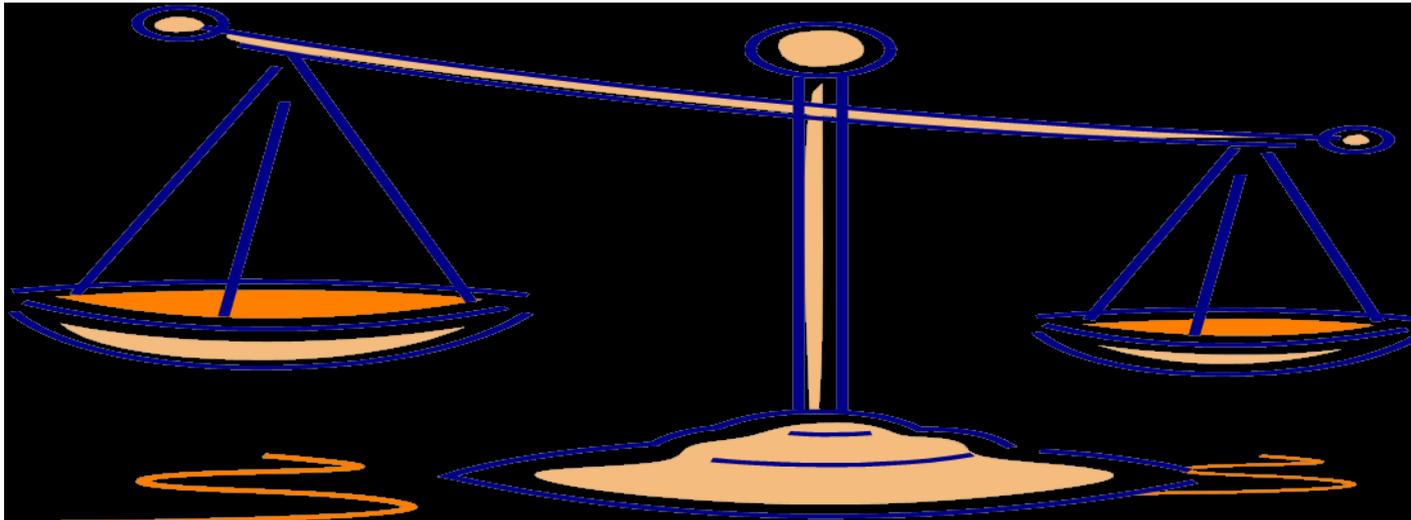
- Support for explicit statement of compliance with relevant ethical requirements, including independence requirements
  - Consider whether a more explicit statement of independence is needed
- Strong support for content of Auditor's Responsibility section
- Mixed views on whether this section should be placed elsewhere (e.g., website or appendix)
  - Longer section said to create reader fatigue (suggestions about style and format of standardized information)
  - Some support for having information accessible via a web link, but recognition that not all users may be able to access it
- Value of enhanced description may decline over time

## Matters for the IAASB to Further Consider

- Information needs of users are addressed in a number of ways beyond the audited financial statements and more frequently than annually
  - Preliminary announcements and non-GAAP measures are of increasing importance
  - But audited financial statements provide an anchor
- How will interim reporting be affected?
  - Will auditor commentary have to be updated or referenced in interim reports?
- Are there other avenues to explore?
  - Assurance on internal controls on financial reporting?
  - Assurance or review of some or all Management's Disclosure and Analysis information?

# Summary

Both value and impediments exist  
Essential to strike appropriate balance



Strong desire for IAASB to move quickly and ambitiously

# Upcoming Outreach Activities

- ACCA/European Parliament/ecoDa Roundtable
- IBR-IRE Information Session on Auditor Reporting
- NBA Information Session on Auditor Reporting
- Japan Outreach
- International Organization of Supreme Audit Institutions (INTOSAI)
- International Forum of Independent Audit Regulators (IFIAR)
- Australia Outreach
- New Zealand Outreach
- Forum of Firms Auditor Reporting Symposium
- Standards Working Group (of the Six Largest Accounting Firms)
- Roundtables for Finance Providers sponsored by ACCA
- IAASB Asia Pacific Auditor Reporting Roundtable co-hosted with ICAA, CPA Malaysia and MIA

# What's Planned for December 2012 – June 2013?

- **December 2012**
  - High-level overview of responses to ITC and outreach since September 2012
  - Detailed analysis of auditor commentary, and preliminary TF views on the way forward
  - Select issues for IAASB decision
- **February 2013**
  - Detailed analysis of all other areas addressed in the ITC, and TF views on the way forward
  - Consideration of requirements for auditor commentary
- **April 2013**
  - First read of revised standards
- **June 2013**
  - Approval of exposure draft of revised standards

