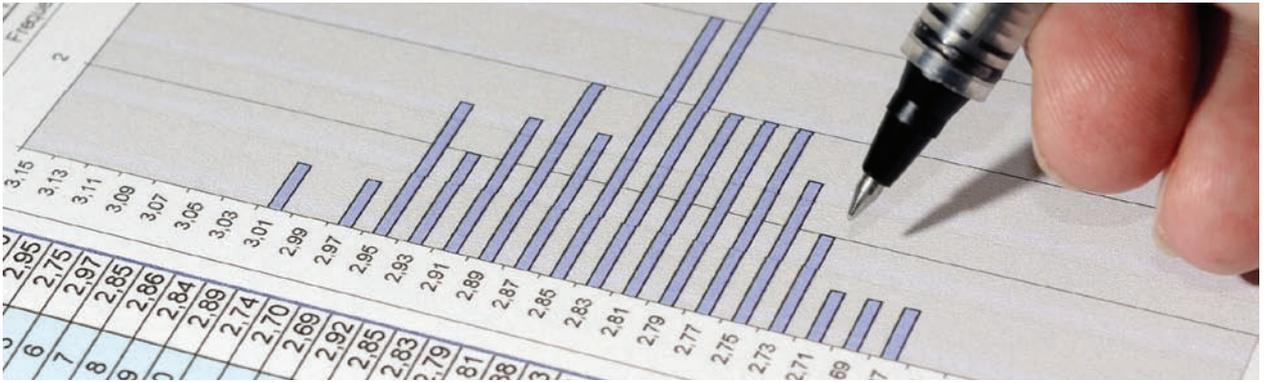


The IAASB and Enhancing the Value of Auditor Reporting



The completion of the International Auditing and Assurance Standards Board's (IAASB) Clarity Project at the end of 2008 established a strong basis for a single, global auditing language, both for the private and public sectors. The sovereign debt and global financial crises have further heightened the importance of a single set of globally recognised standards. It has also brought into sharp focus the importance of continuous improvement in standards as business environments and users' needs evolve. The IAASB has continued to work towards the global adoption and implementation of the clarified International Standards on Auditing (ISAs); India is among the 80, and growing, countries worldwide that now use, or are committed to using, the clarified ISAs for national audits. The IAASB has committed to move rapidly over the next two years on a top-priority project to lay a solid foundation for the future of auditor reporting and to enhance the communicative value and relevance of the auditor's report. Read on...



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The sovereign debt and global financial crises have further heightened the importance of a single set of globally recognised standards. It has also brought into sharp focus the importance of continuous improvement in standards as business environments and users' needs evolve. In this context the IAASB has heard, and indeed embraced, the call from stakeholders in virtually all quarters of the world to re-examine and, to an extent re-invent, the auditor's report — the auditor's primary means of communication with an entity's stakeholders.

As a result, the IAASB has committed to move rapidly over the next two years on a top-priority project to lay a solid foundation for the future of auditor reporting and to enhance the communicative value and relevance of the auditor's report.

What is the issue? Users of audited financial statements 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. A quality audit should be accompanied by an informative auditor’s report that delivers value to the entity’s stakeholders. Importantly, 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. However, there are many complex issues. For example, management is ordinarily expected to be the first source of information about an entity, but some believe auditors should contribute by providing their independent view about matters such as key risks.

Nevertheless, now is the time for decisive action to ensure there is continued confidence in the value that an audit provides, and the IAASB is committed in the public interest to deliver meaningful improvements to auditor reporting as quickly as possible.

At its June 2012 meeting, the IAASB achieved a key milestone in its work on auditor reporting with the unanimous approval of a new consultation document that sets out the indicative direction of the IAASB’s future standard-setting proposals to improve how, and what, auditors report in accordance with International Standards on Auditing. Featured in the consultation is an illustrative improved auditor’s report, the IAASB’s rationale for the suggested improvements, together with discussion of their potential value and impediments, and questions on which feedback is sought.

At the heart of the suggested improvements is the need for transparency on matters specific to the audited financial statements and the audit that was performed, including the auditor’s efforts in key areas. A new section in the auditor’s report addressing “Auditor

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The consultation document, entitled *Invitation to Comment: Improving the Auditor’s Report*, has been released on the IAASB website. It reflects the progress the IAASB has made in its deliberations to date, based on what it has learned from its research and earlier consultation in 2011, and from its ongoing dialogue with stakeholders. The IAASB is consulting now on its suggested improvements to the auditor report to better understand whether it will achieve the value that users seek.

Commentary” is envisaged to be the mechanism where auditors could call attention to matters that are, in the auditor’s judgment, likely to be most important to users’ understanding of the audited financial statements or the audit. There are also suggested improvements in regard to new statements regarding going concern and other information in documents containing the audited financial statements, aimed at making more explicit the auditor’s work effort and findings in these areas. Further suggested improvements include new disclosures regarding the responsibilities of the auditor and key features of the audit itself, and enhancement to the format of the report. IAASB’s work will involve exploring new ways in which auditor reporting could accommodate evolving national reporting regimes and entities of different types and sizes.

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Early engagement with global stakeholders on key issues will be critical to the success of IAASB work on this topic, and I encourage all stakeholders to respond to this consultation document. While the IAASB also plans roundtables later in 2012 — including a roundtable in Kuala Lumpur on 8th October, 2102 — and other outreach activities, it is critical that the IAASB hear from a wide range of stakeholders at this stage in order for the Board’s future standard-setting proposals to develop in a way that will best serve the public interest. ■