Auditor Communications
Consultation Report

Comment Letters

TECHNICAL COMMITTEE
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

FEBRUARY 2010

Comment Letters on Auditor Communications Consultation Report

The International Organization of Securities Commissions' (IOSCO) has made available the comment letters it has received in response to its September 2009 consultation paper *Auditor Communications*[1].

Although IOSCO's normal practice is to publish any responses received at the time it publishes any associated final report, in order to facilitate the discussion of the topic of Auditor Communications in interested fora which IOSCO understands would meet prior to the Technical Committee's consideration of the feedback it has received, these letters are being made available at this time.

The views contained in these response letters contain the individual views of the various respondents and not those of the Technical Committee of IOSCO, and thus should not be construed as being indicative of any views that the Technical Committee may develop.

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1 *Auditor Communications*, Consultation Report, Report of the Technical Committee of IOSCO, September 2009, available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD303.pdf.

List of Comment Letters Received

No.	Respondent Organization
1.	BDO International Limited
2.	Canadian Public Accountability Board
3.	The Compagnie Nationale des Comissaires aux Comptes (CNCC) and the Conseil Superieur de l’Ordre des Experts-Comptables (CSOEC)
4.	CPA Australia/Institute of Chartered Accountants/National Institute of Accountants
5.	Deloitte Touche Tomatsu
6.	Dubai Financial Services Authority
7.	European Group of International Accounting Networks and Associations
8.	EUMEDION Corporate Governance Forum
9.	Ernst & Young Global Limited
10.	FAR SRS (The Institute for the Accountancy Profession in Sweden)
11.	Federation of European Accountants
12.	Grant Thornton International Ltd.
13.	Hermes Equity Ownership Services
14.	International Auditing and Assurance Standards Board
15.	The Institute of Chartered Accountants of Scotland (Audit and Assurance Committee)
16.	Instituto De Censores Jurados De Cuentas De Espana
17.	Institut der Wirtschaftsprufer
18.	KPMG International
19.	The Nordic Federation of Public Accountants
20.	PricewaterhouseCoopers LLP
21.	SEC Thailand
22.	Standard Life Investments (with attachment "Guidelines for Enhanced Disclosure")

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By email: AuditorCommunications@iosco.org

20 January 2010

Consultation on Auditor Communications

Dear Mr Tanzer:

We are pleased to have the opportunity to comment on the "Consultation on Auditor Communications" issued by IOSCO.

We acknowledge that your detailed questions are mostly aimed at gathering the views of the investor community; however, we are confident that the views of an international network of professional firms such as BDO will provide valuable input into this increasingly topical debate.

A significant part of the debate concerns the concept of increased transparency in financial reporting and the request by investors for more information. When considering this, it is essential to distinguish between information needed to assess the quality of the financial reporting and information needed to assess the quality of the audit.

To the extent there is an information gap regarding uncertainties, judgements, and risks underpinning the financial statements, it is the role of those charged with governance to make this information available to investors in accordance with the relevant financial reporting framework. Although, by virtue of their role, auditors may have input into this area, it is not the role of the auditor to communicate such information and it is our opinion that the audit report should not be used for this purpose. Indeed, if this is a recommended solution, then it is necessary to consider the fundamental basis of the current financial reporting model and the role of those charged with governance within the context of that model.

We strongly support the idea that there should be information available to users of financial statements to enable them to assess audit quality; however, the key question is the nature of this information and the method of its delivery. The current auditor's report is often referred to as a pass/fail model and, although we do not fully agree with this description, it does fulfill the objective of the audit report: to express an opinion on the financial statements. In our view, expanding the auditor's report to address another purpose will detract from this objective and could have significant drawbacks that will do little but cloud the clarity and consistency of the message received by users.

Regulators in many countries have effective inspection processes to evaluate audit quality of firms under their jurisdiction and provide users of audited financial statements with information that can help them assess the audit quality of those firms. Moreover, many of those oversight bodies are vested with the authority to ensure that their findings to improve audit quality are implemented by the firms. Additionally, in many jurisdictions such as the

European Union, audit firms are either required to or volunteer to provide information on their audit quality control processes and firm governance. We believe that these mechanisms can provide users with valuable information for judging audit quality, rather than considering the expansion of the audit report.

We are encouraged that IOSCO is taking an active interest in this matter and we encourage you to transmit the findings of this consultation process so it may be considered in the audit report research project that is currently being undertaken by the IAASB/AICPA.

Please contact me should you wish to discuss any of the points raised in further detail.

Yours sincerely,

Wayne Kolins

Wayne Kolins
Global Head of Audit and Accounting
BDO International Limited - International Executive Office

CANADIAN PUBLIC ACCOUNTABILITY BOARD
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January 13, 2010

Mr. Greg Tanzer
Secretary General
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Dear Mr. Tanzer:

Re: Public Comment on Auditor Communications: Consultation Report

The Canadian Public Accountability Board (CPAB) is pleased to comment on the consultation report "Auditor Communications".

Audit Report

CPAB is supportive in principle of global consistency in audit reporting. We believe a standard audit report is useful to investors and a change from a binary (pass/fail) model may be more confusing for investors and make it more difficult to understand whether financial statements achieve fair presentation in accordance with an accounting framework.

Levels of Assurance

The consultation report explores the possibility of the auditor providing different levels of assurance on different financial statement elements. We would not be supportive of a move in this direction as the overall level of assurance being provided to investors under such a model may be reduced when compared to the level of assurance investors currently receive. This may also lead to confusion amongst investors in understanding the assurance they are receiving and has the potential to undermine the concept of reasonable assurance currently provided on the financial statements taken as a whole.

Communications with Audit Committees

The consultation report contemplates a requirement to publicly disclose communications historically provided by auditors only to those charged with governance. We caution a move in this direction as this may lead to less forthright and transparent dialogue between the auditor and those charged with governance with potentially negative consequences for audit quality. In our experience, we have noted situations where the communications with Audit Committees should have been more forthright and transparent. Examples include ranges of estimates and financial statement disclosure that was lacking in clarity. However, we believe it would be worthwhile exploring the potential disclosure of additional information about the audit by the auditor outside of the standard audit report. For example, disclosure of the more significant audit risks and related audit responses as well as other information related to the scope, conduct and outcome of the audit.

CPAB appreciates the opportunity to provide input on the consultation report.

We would be pleased to discuss any of the above comments.

Yours very truly,

Brian Hunt, FCA
Chief Executive Officer

CPAB
CCRC

ORDRE DES EXPERTS-COMPTABLES

CNCC

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29 January 2010

Dear Mr. Tanzer,

Re: Comments on the IOSCO Technical Committee Consultation on Auditor Communications

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you below with their comments on the Technical Committee of the International Organization of Securities Commissions (IOSCO) Consultation on Auditor Communications (the IOSCO Consultation Paper).

If you have any further questions about our views on this consultation, please do not hesitate to contact us.

Yours sincerely,

Claude CAZES
President of CNCC

Joseph ZORGNIOTTI
President of CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

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Main Comments

We welcome the debate on auditor communications which has attracted the attention of a variety of stakeholders around the globe. The IOSCO Consultation Paper is one of the elements contributing to the global debate on the auditor's communication in all entities, whether public interest or others. We hope that the responses to the IOSCO Consultation Paper will help gather the views of large and small investors, issuers, preparers, regulators, legislators, standard setters and auditors.

In the global debate on the auditor's report, the IAASB has launched a joint task force together with the AICPA to study the usefulness of the standard auditor's report. The responses to the IOSCO Consultation Paper will certainly be one key element feeding the reflection of the IAASB.

We consider that the underlying question of the investors' needs launched by the IOSCO Consultation Paper is, as least as much as the content of the auditor's report, the quality of the disclosure made by management and those charged with governance to enable investors to make proper and informed investment decisions.

The role of investors is to conduct proper analyses of the information available from various sources. The role of auditors is to express an opinion on financial information provided by management and those charged with governance. The auditor cannot be an information provider and disclose information on the entity that the entity itself has not disclosed.

Question 1. Is the standard audit report useful to investors? If not, why?

We believe that having a standard audit report as set out in the International Standards on Auditing (ISAs) is useful to investors for the following reasons:

- it reflects the opinion formed by the auditor as to whether the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework and contributes to allow a comparable credibility between financial statements for different entities and for different periods; it also mentions auditing standards framework that has been applied by the auditor, which is a key information related to the scope of the audit;
- it reminds what is an audit and what are the respective responsibilities of management and the auditor;
- it promotes consistency in the auditor's report. As stated in paragraph 4 of ISA 700 on "Forming an Opinion and Reporting on Financial Statements": *"This ISA promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur"*;
- In France, to enhance usefulness of the statutory auditor's report, an explanatory paragraph was introduced in 2003 in the statutory auditor's report to provide additional information on the work performed by the statutory auditor on significant assessments before forming his opinion. This paragraph, called "justification of the auditor's assessments", is located between the "Opinion" paragraph (report similar to ISA 700

standard report) and before part "Specific verifications and information" (which is an "other reporting responsibilities" paragraph as requested by the French laws and regulations) in the statutory audit report. The justification of the statutory auditor's assessment is focused on the accounting policies, the accounting estimates and the overall presentation of the financial statements, since it is part of how a statutory audit is defined in the French auditor's report:: *"An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements."* It is nevertheless important to note that the justification of the statutory auditor assessment always focuses on what the statutory auditor has done in his audit to conclude on the topics included in the justification. It is never providing information on the entity that the entity has not disclosed; each topic on which the statutory auditor provides a justification is anchored to a note to the financial statements.

To avoid such justification to be considered as a "piecemeal" opinion, the statutory auditor's report states in its "justification of assessment" part that: *"These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report"*. In practice and based on a study of CAC 40 (40 largest listed companies in France) statutory auditor's report as of December 31, 2004 published as of the end of May 2005, the main topics on which the assessments of the statutory auditor were justified are: goodwill evaluation, accruals and provisions for risks and contingencies, deferred tax position, other assets evaluation, changes in accounting policies.

Because a reference to a note describing the significant accounting policies and estimates is needed to back up the justification of the assessments, it has led the audited entities to improve the quality of disclosures on such significant matter.

The statutory audit report in France is now more "developed" than the standard ISA 700 report due to this "justification of assessments" paragraph and we believe that it provides more useful information to the investor. In the case of a contractual audit, the auditor uses the same report as the one included in the standard ISA 700, since the "justification of assessment" is not required in such a context. However, the "justification of assessment" can be required by contractual clauses.

In primary conclusion on the usefulness of the auditor's report, we understand that an inherent gap exists between the audit opinion, which relates to historical financial statements, also including going concern issues as required by ISA 570, and the investors' expectations, as the investors are willing to take investment decisions based on profit forecast.. However, we continue to believe that the audit report is necessary for investors as it provides them with an opinion on the historical financial information of an entity at a set point in time that can be used to build their forward looking projections.

The IAASB has undertaken a research project to analyse the usefulness of the audit report, as per its Strategy and Work Program 2009-2011, which is also highlighted in the IOSCO Consultation Paper. When conducting this research project, the IAASB has gathered input from a wide range of stakeholders, including investors, in accordance with its rigorous due process, through 4 research studies. Some preliminary results of this research project have been discussed at the IAASB Board in December 2009 based on analyses carried out by the

IAASB Working Group responsible for the project[1], and they conclude that the audit report is valued and considered as a "must have" (people will always ask for an audit report and raise question when audit report is not available).

Question 2. Would investors prefer a more concise audit report (*e.g.*, a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

It is very difficult for us to evaluate the needs of the investors, since no survey on this topic has been performed in France. We note that, in France, the trend since 1987 has been to provide more information in the statutory audit report (in the "justification of assessment" and in the "other reporting responsibilities" paragraph) and not to prefer a more concise audit report.

As mentioned above, the IAASB has undertaken a research project to analyse the usefulness of the audit report, as per its Strategy and Work Program 2009-2011

The preliminary results show that the audit expectations gap surrounding the scope and purpose of an audit of financial statements, and the auditor's role and responsibilities in that regard, is persistent and very hard to change. The IAASB working group has recommended that the information and key messages obtained from this project to date would be a useful preliminary basis for a further consideration of auditor reporting issues. We are waiting for the final outcome of the IAASB project as we believe it is too premature to answer this question before the IAASB research project has been completed and, as mentioned above the response to the IOSCO Consultation Paper will certainly be one key element to feed the debate at the IAASB level.

Question 3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (*e.g.*, an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (*e.g.*, a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

In France, the statutory audit report is not a totally standardized outcome. It is to a certain extent tailor made to the specificities of each statutory audit, especially due to the "justification of assessment paragraph". However, there have never been to the best of our knowledge any study surveying the impact of the "justification of the auditor's assessments" on the investors' decisions.

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[1] http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191

Furthermore, in France and in the context of a statutory audit, the auditor's communication to investors at the year end is not limited solely to the statutory audit report. The French legislation has extended the scope of the statutory auditor's communication towards the investors, for example, through providing a report on the report of the chairman of listed entities on the internal control procedures implemented to prepare and process the accounting and financial information. The local legislation has also extended the communication of the statutory auditors with those charged with governance. As a matter of fact, article L.823-16 of the French commercial code requires that the statutory auditors communicate with those charged with governance, especially, their overall audit strategy, the modifications asked to be booked in the statutory financial statements or in other accounting documents, their observations on the accounting estimates used to prepare the statutory financial statement, the non compliance with law and regulations and the errors that they have discovered.

In addition, we consider that auditor's involvement with and responsibilities for providing information to investors regarding the financial situation of an entity cannot exceed the responsibilities assumed by management and/or those charged with governance of that entity. The various parties, management, those charged with governance, auditors, investors, regulators, other users etc, all have different levels of responsibility when it comes to involvement with an entity and its decision making process. This entails that the different parties also have different information needs to successfully assume their respective responsibilities. We are therefore not of the view that the same information should be provided to all parties. We consider that there is a gradation in the nature and quantity of information that could be provided to the different parties. This depends on the parties that receive it to assume their responsibilities, e.g. the Board of directors, those charged with governance, the shareholders attending the annual general meeting, the potential shareholders.

Question 4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (*e.g.*, instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

As stated above, auditors' involvement and responsibilities for providing information to investors regarding the financial situation of an entity cannot exceed the responsibilities assumed by management and/or those charged with governance of the entity. The auditor cannot be an information provider. Therefore, new or revised communications on financial situation cannot be directly provided by the auditors. Information on the entity can only be provided by the entity and not by auditors.

In response to the second question, we consider that legal and regulatory challenges (i.e. business confidentiality and rules of professional secrecy) could preclude new or revised auditor communications.
With respect to the practical challenges, in France, the challenge related to the justification of the auditors' assessments was for the audit firms to put in place a quality control process to check each statutory audit report before it is issued in order to verify in particular that the information provided by the statutory auditor did not break the rules of professional secrecy.

Furthermore, investor decisions for optimising future returns on investments made are normally based on prospective and forward looking information. Therefore, management and those charged with governance supplement the information in the annual financial statements with more timely financial and other information provided in documents such as analysts' briefings, press releases or quarterly, half-yearly financial highlights. Such information is currently provided under the sole responsibility of the management as part of the regular dialogue between the entity and its investors and the auditor has no active audit procedures to perform on it. In this context, the level of auditor's involvement is left to the entity's decision based on a cost/benefit analysis. The level of work required may make some engagements of a prospective and/or subjective nature prohibitively expensive. In addition such prospective information cannot be covered effectively by an audit or assurance engagement and auditors would thus have difficulties in providing an opinion on such information. But, should irregularities or errors in prospective information have come to the statutory auditor's attention, he is required by the French law to inform the general meeting of shareholders and the general regulation of the Autorité des Marchés Financiers. We consider that the increasing complexity of the financial statements and the business world in general create an understandable "demand" from the investors to be "walked through" all this information and a temptation to ask the auditor to help him in this respect. Such tendency should not lead the auditor to take more professional risks to satisfy the needs of the investors without having the means to carry out their work to obtain a meaningful assurance on the information they would cover. Preparers and issuers could be invited to consider which other information could be made public for the benefit of investors without harming the operational, commercial and other interest of the entity.

Therefore, we believe that a broad-based debate with all relevant stakeholders is preferable before far reaching legal and regulatory changes would be envisioned.

18 January 2010

Mr Greg Tanzer
Secretary General
IOSCO

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Dear Mr Tanzer

Public Comment on the Auditor Communications: Consultation Report

Thank you for the opportunity to comment on this Consultation Report. CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants (the Joint Accounting Bodies) have considered the report and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

General Comments

Over the last several decades there has been extensive academic research devoted to the topic of auditor communications. Many studies have examined the impact that changes to the wording and format of the audit report have on the perceptions of audit report users, typically, investors and bankers. Some studies have attempted to distil the effects of the wording changes on the decision making of these users. These studies have examined a number of different aspects of the report communication, including more detailed descriptions of management's and the auditor's responsibilities, the use of "free form" (vis-à-vis standard wording) reports, and changes to the format (the ordering of the different sections) of the report.

While the vast range of different studies has produced a myriad of outcomes, a common theme is that changes to the wording and format of audit reports has tended to have little or no impact on the perceptions of report users. Consequently, there has been no impact noted on the decision making of this group.

However, studies which have examined perceptions of investors of information that is either audited (assured) or not typically show that report users place value on the audit. This suggests that the primary use of an audit report may be as a signal to information users. That is, report users do not read the audit report, but rather derive confidence from noting that an unqualified or unmodified audit report exists. Research exists to show that the audit report is read much less often that other information included in an annual report.

IOSCO should consider the outcomes of research commissioned jointly by the International Auditing and Assurance Standards Board (IAASB) and Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants to consider user perceptions about the standard unqualified auditor's report under ISA 700 *Forming an Opinion and Reporting on Financial Statements*, including in the wider context of information about auditor reporting from other relevant sources. We understand this research was discussed at the most recent IAASB Board Meeting in December 2009.

IOSCO should also liaise with the IAASB in this regard in order to ensure that any changes IOSCO may propose in connection with auditor communications do not diverge from those being promoted and promulgated by the IAASB.

In commenting upon auditor communications, and in particular the audit report, it is important to keep in mind the primary purpose of an audit. That is, the primary objective of an audit is to add credibility to management's financial statements. More specifically, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* states that "(t)he purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework" (paragraph 3). Therefore, the responses provided to the specific questions that follow have been prepared on the basis that the financial statements being provided to users belong to, and are the responsibility of, the entity reporting that information.

Specific Questions

1. Is the standard audit report useful to investors? If not, why?

The standard audit report is useful to investors, in terms of the signal it provides. That is, investors' confidence in the credibility of the information reported in the financial statements is enhanced as a consequence of the existence of the audit report. An unqualified or unmodified audit opinion provides a signal that the information can be relied upon.

However, this does not mean that the standard audit report is useful to investors in educating them about audit. That is, as many investors purportedly do not read the audit report, any description of the audit – and the responsibilities of management and the auditor – detailed in the report is not particularly useful in attempting to close the expectations gap.

The expectations gap is loosely described as the difference between what auditors do when conducting an audit, and what investors think the auditors do when conducting an audit. Common misconceptions include that: an audit provides a guarantee of the accuracy of the financial statements; an auditor checks all transactions undertaken by the entity; and auditors are involved intimately with the preparation of the financial statements.

The results of a 2004 research study conducted in Australia, using members of the major shareholders association (investors) as research participants highlighted that shareholders read the audit report significantly less frequently than they read other parts of the annual report – namely the statements of financial position and performance, the statement of cash flows, and the Chairman's/CEO's report.

2. Would investors prefer a more concise audit report (*e.g.*, a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

Arguably, for those investors who see the audit report as being nothing more than a signal, a one sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented would probably suffice. However, clearly when an audit opinion needs to be modified, potential complications arise in terms of the amount of detail that the auditor provides about the modification, and the work that was done to reach such a conclusion.

Alternatively, a criticism that often seems to be levelled at the standard audit report is that it provides little insight into the work performed by the auditor during the audit. While it outlines the responsibilities of the auditor, it lacks detail on matters such as the: levels of materiality; samples chosen for testing; accounts tested; the auditor's view of the competency of management; and errors detected and (not) corrected. Arguments have been put forth that the auditor, or the entity being audited, should make the management letter provided to those charged with governance at the end of the audit, publicly available.

3. **Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (*e.g.*, an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (*e.g.*, a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?**

Informed investment decisions are commonly based on the information provided by the entity reporting via its financial statements. Arguably, where an unqualified or unmodified audit opinion is provided, investors really don't need to know anything more about the audit. That is, the audit has merely enhanced the credibility of the reported numbers, noting that they are free from material misstatement. This is the role of the audit in assisting the investor to make an informed decision.

In essence, as long as the investors are cognisant of what an audit is, and what it entails, there is no need to provide any additional information about the audit. This suggests that it is the education of investors about auditing that is important. If regulators/legislators have a view that the auditor should be assisting the investor to make an informed investment decision in some other way, it implies that a rethink of what constitutes an audit is necessary.

It may be argued that where a modified opinion is furnished, additional information from the auditor could be forthcoming. While the auditor could provide more detail about the matter that led to the modified opinion, investors' understanding of the description of the modification will still be impacted by investors' understanding of auditing.

Any more information that needs to be provided to investors to make informed decisions should be provided by entity management and those charged with governance. This is consistent with the view that the financial statements are the responsibility of the entity. As long as this information is provided within a recognised and acceptable framework, the auditor can enhance the credibility of that additional information provided by subjecting it to audit.

Although the Consultation Report (page 14) notes that the auditor's responsibility generally only covers financial information – as outlined in the audit report – there is scope for assurance to be provided over non-financial information as well. Assurance standards are available that can be used by an audit practitioner to provide assurance on other than historical financial information.

The Consultation Report on pages 8 and 9 includes discussion of the notion that the current binary nature of the audit opinion means that the auditor is essentially providing a pass or fail comment on the financial statements. One may argue that this is a naïve interpretation, given the scope for the auditor to provide a range of modified reports – including the provision of "emphasis of matter" and/or "other matter" paragraphs in reports, and the descriptions that are included with any qualification of opinion. This range of available options means that the auditor has the ability to furnish a broad range of comment; not merely a pass or fail.

As noted in the response to the previous question, some investors hold the view that there needs to be additional auditor communication in a number of areas, including the: levels of materiality: samples chosen for testing; accounts tested; the auditor's view of the competency of management; and errors detected and (not) corrected. It is possible that the standard audit report can be modified to include comments by the auditor on all, or a number, of these items. Other auditor communications can also be considered, such as compulsory oral reporting by the auditor at annual general meetings, requiring that the auditor be available to answer any questions of shareholders, and the use of colours, symbols and grading systems to accompany any written report. These topics provide fertile grounds for the commissioning of independent research to support and inform policy decisions made in this area.

In terms of the specific suggestions about the form that additional information provided by the auditor may take, we offer the following comments:

- an auditor's analysis of risks and other findings in an audit. Conceivably this information would assist investors, and may provide them with greater insights into the risk profile of the entity.

- a report on the quality of an issuer's financial reporting. It is not clear what this means. In some respects, auditors do make comments on the quality of the financial reporting by stating that it is free from material misstatement. Any further work/comments on the quality of the financial reporting by the auditor may require a fundamental change in the role of an auditor and the purpose of an audit. Also, beyond being free from material misstatement, it is not clear what "high quality" financial reporting might be for an investor. Does it mean that the entity has followed all standards, provided more detail beyond that required by the standards, or maybe has reported in such a way as to make it easy to read and understand?

- an auditor's discussion and analysis of their independence. This would seem to be inappropriate, as an auditor is either independent or not according to the regulations/ legislation that apply within a jurisdiction. However, within Australia, a separately headed independence section has been included in the audit report, which requires the auditor to declare that he/she has complied with the independence requirements outlined in regulations/legislation. Research has shown that the inclusion of this section in the audit report has the effect of changing shareholders perceptions about the information and the auditor – believing the auditor to be more independent, and the information to be more credible. Also within Australia, the auditor is required to furnish to the entity an "Independence Declaration" which is made publicly available in the entity's annual report.

- an auditor's discussion and analysis of work performed in an audit. As noted in the response to the previous questions, this is an area where investors could be demanding more detail, including discussion of levels of materiality, samples chosen for testing, accounts tested, auditor's view of the competency of management, and errors detected and (not) corrected.

It is difficult to surmise how additional information provided by the auditor would affect investors' use of audited financial statements. This is another area where regulators/ legislators may wish to consider commissioning independent research to inform their policy decision-making. However, one could argue that the provision of more information by the auditor should not change investor's use of information reported by the entity in the financial statements, assuming that investors understand what an audit is, and how it is conducted.

The need for greater education about auditing and what an audit constitutes is again highlighted. In terms of the investors' level of understanding of auditing and their familiarity with auditing, research in Australia has shown that shareholders with a greater understanding and familiarity perceive reported information to be more credible and for the auditor to be perceived as being more independent.

It is difficult to assert with any certainty whether the utility of any additional information provided by the auditor would diminish over time. However, there are arguments to suggest that any standardised wording becomes "boilerplate" and a commodity, and therefore fewer people will read it the longer it is presented.

A matter to bear in mind with regard to at least some of the foregoing is the potential for companies to be required to be placed at a competitive or commercial disadvantage as a result of obligations being imposed to provide more details regarding, for example, risks to which the entity is exposed.

4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (*e.g.*, instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

The practicality of any revised auditor communications depends upon the communications being proposed. For example, presentations at annual general meetings by the auditor of the work undertaken would be reasonably straightforward; requiring that the auditor is made available to answer any questions from shareholders may not be quite so practical.

Any changes to auditor communications may be affected by legislative requirements in various jurisdictions, such as the need for the audit report to be in writing, and to be in a prescribed format and wording. As noted several times in responses to previous questions, the greatest practical challenge potentially relates to educating investors, and the users of financial statements, about the role of the auditor and the function of an audit. That is, while regulator/legislators can be innovative in the manner in which the auditor communicates with the greater public, it does not alter the manner in which the auditor conducts the audit.

As noted in the response to an earlier question, any additional information that needs to be provided to investors to make informed decisions should be provided by entity management and those charged with governance. This is consistent with the view that the financial statements are the responsibility of the entity. This information may be in the form of mandated disclosures by management.

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality auditing and assurance arrangements and regulatory standards around the world. We hope that the comments provided are of assistance to IOSCO. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at +61 2 9375 6244, Andrew Stringer (Institute) at +61 2 9290 5566, or Tom Ravlic (NIA) at +61 3 8665 3143.

Yours sincerely

Alex Malley	Graham Meyer	Andrew Conway
Chief Executive Officer	**Chief Executive Officer**	**Chief Executive Officer**
CPA Australia Ltd	**Institute of Chartered Accountants**	**National Institute of Accountants**

Copy: Gary Pflugrath; Andrew Stringer, Tom Ravlic

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Deloitte
Touche
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January 15, 2010

Greg Tanzer
Secretary General
IOSCO General Secretariat
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28006 Madrid
Spain

RE: **Public Comment on the Auditor Communications: Consultation Report**

Dear Mr. Tanzer:

We, Deloitte Touche Tohmatsu, appreciate the opportunity to comment on the Consultation Report on Auditor Communications (Consultation Report) published by IOSCO's Technical Committee. This is an opportune time for IOSCO to engage in the on-going activities and discourse related to auditor communications.

Since IOSCO held its roundtable on the Quality of Public Company Audits from a Regulatory Perspective in 2007, the International Auditing and Assurance Standards Board (IAASB) and the American Institute of Certified Public Accountants (AICPA) have progressed in their joint research initiative related to users' perceptions of auditor's reports issued in connection with financial statement audits. Also, as noted in the Consultation Report, the UK's Auditing Practices Board issued a Discussion Paper seeking views related to the auditor's report. The results of these initiatives should be considered and leveraged by IOSCO in its deliberations on auditor communications. Ultimately, any output of IOSCO's consultation process should feed into the continuing IAASB/AICPA joint project.

We believe the issuance of the Consultation Report represents an opportunity for IOSCO to bring together the collective knowledge and experiences of the diverse constituencies that generate and use auditor communications, including audit professionals, management and those charged with governance, regulators, and, importantly, users of the financial statements. The views and feedback of users, who represent a key voice in the debate, are of critical importance. For that reason, we suggest that IOSCO take measures to proactively encourage users to submit responses to the Consultation Report. Meanwhile, we are appreciative of the opportunity to provide views from the audit profession based on our insights into current practice.

The Consultation Report describes three perceived shortcomings in the current standard auditor's report: the binary report style, the use of boilerplate language and the absence of acknowledgment of the level of effort and judgments inherent in an audit. The common element in these shortcomings is the inference that users are not being provided sufficient information on which to base their decisions. We believe that an important area of focus of the various initiatives currently underway to assess auditor communications (including the Consultation Report and the on-going projects described above), should be to analyze more deeply the perception of "missing" or inadequate information in order to clarify the exact nature of that information, and therefore, to determine the most appropriate source to provide that information to users. It is important to distinguish between information that users feel they need to assess the quality of the financial statements and the information that users feel they need to assess the quality of the audit process.

In circumstances where users believe that additional information about the quality of the financial statements, management's processes or the entity itself is needed, we believe that the most appropriate source of such information would be management or those charged with governance, rather than the auditor. As the "owner" of the financial statements, and given the various privacy laws across jurisdictions, management and those charged with governance are best suited to provide users with such information.

Alternatively, when users seek additional information to further assess the quality of the audit, including the audit process, and the professional judgments made, it may seem appropriate for that information to be provided by the auditor. However, in order to make that determination, we believe that it is very important to first clearly understand the nature of the additional information sought by users. Moreover, the auditor's report may not be the most appropriate conduit for such information. As some of the results from the joint IAASB/AICPA research initiative have indicated, certain users felt that the more information was included in the auditor's report, the more confusing the report became. Similarly, as noted in the Consultation Report, certain users jump right to the opinion paragraph in the current auditor's report without reading the other sections of the report; additional language may therefore be equally ignored.

We recommend that prior to establishing any additional requirements for information to be included in the auditor's report beyond what is currently required, additional research be conducted on the impacts of such changes. These impacts may include readability and understandability of added language, as well as the impact on the underlying audit scope that the requirement to present additional information may cause. Consideration of alternative communication means (i.e., communications other than the auditor's report) should also be made if a determination is made to broaden the nature and extent of current auditor communications. To the extent changes were made to the auditor's report to provide additional information, we believe it is important to balance the need for consistency and comparability in reporting with the ability to communicate entity-specific tailored information in each individual auditor's report. User confusion may increase if each auditor's report was different and unique to the entity being audited with no comparability across entities of similar characteristics (e.g., industry).

In other circumstances, certain information may already be communicated by the auditor to those charged with governance in fulfilling their respective roles, rather than directly to users. This type of information may be best suited to be made to those charged with governance rather than to the broader community of users, given the sensitivity, or confidentiality of the information. If there was to be a change in protocol whereby the auditor would now communicate that information directly to users of the financial statements rather than to those charged with governance, it may necessitate reconsideration of the role of those charged with governance as it relates to their interaction with the auditors and to their interaction with users of the financial statements.

An additional consideration in the discussion about the availability and assessment of information related to audit quality is the role played by the various oversight and regulatory regimes which have become more established over the past several years. The activities of many of these oversight bodies encompass assessing audit quality, including judgments made during the audit. In the execution of their mandate, such bodies have access to the information pertaining to audit quality mentioned in the IOSCO consultation report. As these oversight bodies and their processes continue to evolve, reliance by investors on the work of these bodies as an independent assessment of audit quality would appear to be increasingly appropriate.

We believe that when considering all of the possible alternatives and changes to the auditor communication model, whether that is an increase in communications directly from the auditor or from another source, it is very important to consider the impacts that may arise from any changes to auditor communications. For example, if new or revised auditor communications extended beyond the provision of information or assurance related to the audit of the financial statements, there would be both scope and cost impacts of such changes. In addition, we believe that there are existing legal and regulatory impediments (e.g., jurisdictional privacy laws) that may preclude certain information from being included in auditor communications. Prior to establishing any new required auditor communications, or making changes to existing auditor communications, these impediments and impacts would need to be explored and addressed. We are concerned that, should changes be made to current auditor communication processes and protocols without sufficient deliberation, there may be unintended consequences.

We are grateful for the opportunity to comment on the Consultation Report. We support the consultation undertaken by IOSCO on the significant topic of auditor communications and we believe the results of this consultation will serve as a valuable input into the IAASB/AICPA project as it continues to evolve.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689.

Very truly yours,

Jens Simonsen

Dubai Financial Services Authority

By E-mail

Greg Tanzer
Secretary General
IOSCO General Secretariat
Calle Oquendo 12
28006 Madrid
Spain

AuditorCommunications@iosco.org

Dear Sir / Madam,

Comments on the Auditor Communications Consultation Paper

The Dubai Financial Services Authority has taken this opportunity to provide commentary on the Auditor Communications Consultation Paper. We consider this to be a comprehensive paper hence our comments which are set out in an attachment to this letter are rather limited.

We are happy to provide any further elaboration or clarifications on the issues raised and can be contacted on +971 4362 1549 or by e-mail on nlalani@dfsa.ae.

We look forward to participating in any further work in this area.

Yours sincerely

Christian Cameron
Manager
Policy and Legal Services

Dubai Financial Services Authority

Comments on Consultation Report
Auditor Communication

November 26, 2009

Question 1
Is the standard audit report useful to investors? If not, why?

Standard audit report in its current form is not a very useful tool for investor as it certainly does not reflect the growing complexity in business, financial reporting and auditing.

Moreover, the audit report provides little or no answers to the following:

- What has the auditor done to ensure his independence?
- What have been specific risks and focal points of attention in the audit and why?
- What audit steps have been taken accordingly?
- What materiality criteria have been used?
- What entities/items have been specifically excluded from the scope of the audit or subject to more limited direct work?
- What has the auditor done to ensure high quality work if he makes use of other auditors?

Question 2
Would investors prefer a more concise audit report (e.g., a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

Investor would not prefer a concise audit report as the report would not address the issues identified in response to Question 1.

Question 3
Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information — management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g., an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g., a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

Investors are not receiving information about the audit that they need to make informed investment decisions. Management and the auditor should provide this information collectively. For information that should be provided by the auditor, other auditor communications should be part of the financial statements. Any new auditor communication should address an auditor‘s analysis of risks and other findings in an audit, a report on the quality of an issuer‘s financial reporting, an auditor‘s discussion and analysis of their independence and the work performed in an audit.

All this information should be provided in a new auditor communication. The additional information would satisfy investor with all the unanswered questions.

Question 4
If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g., instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

New auditor communication would largely depend on the regulations of the jurisdiction in which the client and auditor operates. In most of the jurisdictions, it is prohibited to provide client confidential information.

An alternative way is to provide the required disclosures by management or those charged with governance.

Greg Tanzer
Secretary General
International Organization of Securities Commissions
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28006 Madrid
Spain

13th January 2010

Dear Mr Tanzer

Consultation – Auditor Communications

EGIAN welcomes the opportunity to comment on the above Consultation Paper. EGIAN's membership is made up of 21 global organisations which offer audit, accounting and business advisory services. The combined turnover of our members is US$ 34 billion. In this response we set out our views and would be very pleased to discuss them in more detail with you if that would be helpful.

The IOSCO paper on Audit Communications is a well presented paper, which presents a very informative analysis of the evolution of the audit report. It also raises a number of interesting issues concerning the expectations of the users of the audit report. We have approached our response by specifically addressing the consultation questions listed in Section VII of the paper.

The present audit report has evolved over a long period and is a requirement of Auditing Standards such as International Standard on Auditing (ISA) 700 *The auditor's report on financial statements*. The International Audit & Assurance Standards Board (IAASB) is a transparent and credible standard setter which has recently revised its full package of Auditing Standards. We therefore do not see the need, at this time, to either innovate in terms of auditor communication, or to revise the existing audit report. We also are of the view that the setting of Auditing Standards, including reporting standards, should not normally be the responsibility of an organisation such as IOSCO. Auditing reporting standards need to cover all types of companies, not just listed ones. If IOSCO has concerns or proposals regarding auditor communications, then IOSCO should consider using its existing channels to the IAASB and leading domestic standards setters such as the PCAOB, to address their issues.

Yours sincerely,

Andrew Brown, Chairman

EGIAN Response on Auditor Communications

1. Is the standard audit report useful to investors? If not, why?

The standard audit report is a long established feature of public reporting. It is a product of professional standards which have been issued by reputable standard setters such as the International Audit & Assurance Standards Board (IAASB).

The report has evolved over time to reflect reporting needs. We believe that it communicates a clear opinion to investors in a recognised form.

2. Would investors prefer a more concise audit report (*e.g.*, a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

Investors might appreciate a shorter report. However, the audit report has evolved in its present form as a result of the evolution of professional standards and legal advice given to the audit profession. The report is a product of standards such as International Standard on Auditing (ISA) 700 *The auditor's report on financial statements*.

Therefore, any fundamental re-evaluation of the audit report will require a reassessment of the standards and reasons why the standard audit report has evolved in its present form.

3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (*e.g.*, an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (*e.g.*, a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

If investors require additional information, then they should obtain this information from management. Auditors are appointed to present an opinion on financial statements and other information required by law or standards. They are not engaged to report on additional matters to external investors. Any move to provide additional information to investors will require a fundamental change in the concept of the audit, in Auditing Standards and in the concept of auditors' liability. We see no need to broaden the role of the auditor in the way suggested by the question.

We believe that any attempt to revise the form of the audit report, and therefore the role of the audit, would reopen the debate on the "expectations gap". The present audit report evolved to address the "expectations gap" between auditors and the users of financial statements. In the past, the "gap" arose because users did not fully understand the role and purpose of the audit as presented by earlier, and shorter, forms of the audit report.

4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (*e.g.*, instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

We believe that there would be significant practical difficulties involved with a new or revised form of audit communication to users of financial statements. The present form of audit report is a product of Auditing Standards such as International Standard on Auditing (ISA) 700 *The auditor's report on financial statements* and is backed by law in many countries. ISA 700 is part of a complete framework of Auditing Standards that are widely applied internationally and which have recently been comprehensively revised in the International Audit & Assurance Standards Board's "clarity programme". Any change to the audit report will, in turn, have an impact upon Auditing Standards, and may also require changes in national legislation. In addition, any proposal to require significant additional audit reporting on public companies potentially creates a distinction between public and private company auditing, thereby undermining the IAASB concept that "an audit is an audit". The concept of "an audit is an audit" means that the same principles apply to all audits, regardless of the size or nature of the entity being audited.

Any objective of providing additional information to investors would be best achieved by disclosures being directly made by the reporting entity.

EUMEDION
CORPORATE GOVERNANCE FORUM

IOSCO General Secretariat
Secretary General
Greg Tanzer
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28006 Madrid
Spain

Subject:	Public Comment on the Transparency of Firms that Audit Public Companies, on the Auditor Communications and on the Exploration of Non-Professional Ownership Structures for Audit Firms: Consultation Reports
Ref.:	2.009.068
Amsterdam,	10 December 2009

Dear Mr. Tanzer,

Eumedion, the Dutch corporate governance forum for institutional investors, is pleased for having the opportunity to comment on three related consultations of the Technical Committee of IOSCO on 'Transparency of Firms that Audit Public Companies', 'Auditor Communications' and 'Exploration of Non-Professional Ownership Structures for Audit Firms'. The three consultations contain analyses and questionnaires in order to obtain input from investors, audit oversight authorities, industry and other relevant stakeholders.
By way of background, Eumedion is the Dutch corporate governance forum for institutional investors. Eumedion has 65 Dutch and foreign institutional investors as participants at present. Together they have more than 1 trillion Euro of assets under management. Eumedion's participants invest for Dutch beneficiaries and in listed companies worldwide.

Eumedion supports and appreciates the work that the Technical Committee of IOSCO has undertaken. Many of the issues raised in the report are related to the interests of institutional investors. Since the financial reporting crisis of 2001/2002, society, securities regulators and institutional investors alike paid more attention to the role of auditors in the capital markets. It is fundamental that institutional investors have sufficient, relevant and transparent information upon which they can base their investment decisions. Audits are designed to enhance the degree of confidence of investors and users in financial reports. Therefore, investors have a tremendous interest in auditors' and audit firms' competence, independence, transparency and communications - which all contribute to audit quality.

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Some issues mentioned in the report on Transparency of Firms that Audit Public Companies and the report on Exploration of Non-Professional Ownership Structures for Audit Firms fall outside the scope of Eumedion's objectives. Therefore, we have focused our comments on specific elements in these two reports. At the end of our contribution, we answer the four specific questions raised in the consultation on Auditor Communications.

<u>Consultation report on transparency of firms that audit public companies</u>

Transparency of audit firms may have, directly or indirectly, a positive effect on institutional investor's confidence in financial reporting of listed companies and the way the reporting is audited. Transparency applied by audit firms contributes to an environment in which audit firms compete not solely on factors as reputation, size and audit fees. This is important, as competence and experience of auditors and firm's governance (*e.g.* quality control systems, safeguards against conflicts of interests, and education programs) are other relevant factors for audit quality.

We believe disclosure requirements could sharpen the focus of audit firms on important aspects of audit quality control. Enhanced disclosure may influence how audit firms internally manage audit quality. Only with disclosure we can compare quality control measures between audit firms. By including other information that institutional investors and other users may have, a better judgment of audit quality is facilitated. We therefore generally support IOSCO's approach to consider further transparency of audit firms.

In our view, transparency is needed on potential conflicts of interest as well. We must have an insight into internal governance measures to prevent conflicts of interest. We must know which audit firms offer which audit-related services and which non audit-related services (*e.g.* tax and consulting services) to the same companies, as well as the aggregated fees applicable.

Considering enhanced transparency, it should be taken into account as well that in the European Union a substantial framework of disclosure requirements for audit firms, including elements of firm governance, already exists. In fact, the requirements, based on EU Directive 2006/46/EC[1], are relatively new. EU Members States were required to implement the disclosure measures by June 2008. We believe that further initiatives on disclosure should be approached carefully - as the effectiveness of the existing disclosure framework has not been evaluated yet.

[1] Directive 2006/46/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157).

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Consequently, if it is decided to provide enhanced transparency of audit firms, we will suggest to encourage further disclosure by non binding recommendations first. If these proof to work in practice, one could consider including elements in legal requirements. At the same time, if it would turn out that just a few audit firms comply with these possible recommendations, it could be discussed whether it would be appropriate to turn the recommendations in legislation afterwards.

Exploration of Non-Professional Ownership Structures for Audit Firms

As legislation requires public companies to disclose audited financial reporting and that investors must rely on these audits, the continued availability of independent and high quality audit services is fundamental. We believe that the high degree of concentration in the audit services market for large public companies is an issue of serious concerns. More competition is needed. However, the current ownership and governance rules within audit firms stimulate conservatism. In our view, it is just a question of time before the private partnership model will no longer be tolerated by the users of audit services, as many audit partners – also those without extraordinary performance – become extraordinary rich, while the governance of some of these firms is relatively poor. It is just a matter of time before people recognize that by introducing a 21st century business model for audit firms one could carve out the dead wood in the partnership structure. This will contribute to the functioning of audit firms, will make their prizing more reasonable and by allowing career opportunities which are less focused on 'all or nothing' create a more healthy and open internal control structure. Besides that, the existing firms tend to focus on existing markets and development of value-adding services for existing markets and clients. While we as investors would like to seek the opportunities in new developing markets and regions, for example in China.

Due to legal ownership restrictions almost all firms are organized as private partnerships and do not raise capital through public markets. The existing restrictions on ownership of audit firms can avoid firms from accessing non-private capital that could be used to develop firms in order to be able to audit large public companies and challenge the Big Four. Currently, by lack of a true alternative, clients of audit firms show signs of conservatism. Many large public companies have business activities in international markets and the complexity of their industries impacts their financial reporting. Those companies simply require audit firms with international coverage. As a result, no new firms have managed to compete structurally with the Big Four in the market since Arthur Andersen collapsed.

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Opening up the audit market for large public companies could have several advantages. The most important ones are swift access of investors to new emerging markets and the entrance of new audit market players. Reducing ownership barriers may contribute to the availability of choice of audit services for large public companies. Allowing for non-practitioner ownership may create more alternatives and safeguards for large public companies and their investors, in case one of the Big Four unexpectedly gets involved in an Arthur Andersen scenario.

We recognize the potential risks associated with changes in ownership rules on auditors' independence, professionalism and long term public interest focus. However, we believe that these risks can be reduced by implementation of practical solutions. Under the current ownership rules, risks to auditor independence and quality exist as well. One should not forget that the most important stakeholder of audit firms are the users of financial information, *i.e.* the investors. Investors are dependent on the quality of audit and are those that pick up the bill for the audit services provided. A profit maximizing strategy *vis-à-vis* holdings in audit firms will jeopardize the sustainable profitability of all other investments. Hence, there is an automatic incentive to go for quality; perhaps an even better one than current 'guarantees'. Consequently, we do not believe that external shareholders have an incentive to take decisions in an audit firm that would hamper audit quality.

However, a minimum of proportional safeguards to protect audit quality, others than those related to practitioner ownership, must be put in place. Strengthening audit firms' quality control networks and independence standards, as well as introducing new structures in firms' governance, for example board of directors with a more independent mindset, might create such safeguards. Currently audit partners are supervised by audit partners of the same firm. This is suboptimal supervision.

The introduction of non-practitioners in the governance of firms is needed. We would, however, not be in favor of the concept of "passive non-practitioner ownership" (non-binding voting) as a way of avoiding potential conflicts of interests within audit firms. That would intervene with the principle of "one share one vote' which is generally recognized as an important element of appropriate corporate governance. We doubt whether the range of potential non-practitioner owners should be limited. The composition of the board must be a fair constellation of the true constituents, the users of audit services. The personalities that serve in those boards must be carefully selected. In fact, introducing substantial restrictions *ex-ante* could have a negative influence on the ability of audit firms to raise capital, which should be, as a matter fact, an open choice. Audit firms' existing option for debt funding can in our view not be seen as a strong argument not to enhance the access to equity financing. It could be valuable for audit firms to

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have a choice between debt finance and equity finance in order to raise substantial funds, both in going concern and when times get tough.

Auditors communication

As far as the Consultation Report on Auditors Communications we would like to respond as follows:

Question 1. Is the standard audit report useful to investors? If not, why?

The existing standard is to some extent useful for institutional investors, since it offers investors an impression of the auditors' view on the financial statements and the basis for that view. Nevertheless, we believe the audit report could be much more valuable for investors. For the purpose of investors' decision making, it can be worthwhile when further information on the audit process (what the auditor actually did) and the quality of the financial statements (level of conservatism in management accounting decisions, analyses of risks) would be included in the audit report. Hence, we are in favor of requiring auditors to disclose the report of assumptions as well as a summary of the management letter without elaborate disclaimers. Investors and other users should be offered more information on the auditor's work on risk management, risk monitoring as well as relevant sensitivity analyses. At the same time, disclosure must be to the point and focus on only a few substantial issues. Extensive overviews and graphs can be left to the domain of auditors *vis-à-vis* audit committees.

Question 2. Would investors prefer a more concise audit report (e.g. a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why? etc.

The current form and language of the audit report are highly standardized. Due to its "pass/fail model", any "in between" is not allowed. As a consequence, the auditor can not truly weigh the quality of financial reporting and express this in their opinion. The level of standardization causes persons to become so familiar with the wording that the informational value is close to zero, while the audit report should be the most important form of communication between auditors and investors. A more tailored report that for instance reflects the judgments by the auditor throughout the audit process may enable investors to better understand the financial statements and the performed audit. The possibility to include findings on specific reviews called for by the investors and which had been reflected in engagements letters would facilitate a steep increase in the informational value of audit opinions and better reflect the actual principle-agent connection between investors and auditors.

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Question 3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information, the management or the auditor?

It is difficult to answer this question in general, since the adequacy of received information varies from case to case. However, we believe that further disclosure of relevant information by the auditor and/or the company will primarily decrease the risk investors do not have enough information to take appropriate investment decisions. It is important that the disclosed information not only focuses on financial facts and figures, but also includes relevant non financial and quality issues. In concrete terms, we would support when more information is provided on the scope and conduct of the audit, the consistency of company's accounting policies and the quality of financial statements in terms of clarity and verifiability. In our view, by providing a more concise audit report, investors will be able to better understand the audited financial information and its context. We prefer having as much as possible additional audit information included in the audit report. Providing additional information outside the report, for example in appendixes or additional documents, might negatively affect the coherence of the auditor's communication.

Question 4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided?

We recognize revising audit communications, depending its form and extent, could result in certain legal, regulatory en practical challenges. Given, however, the public interest of audit functioning as a safeguard for the reliability of financial reporting in order to protect investors and other users, we are convinced that the benefits will outweigh these potential problems. Some of the potential problems, for example the need to amend existing legislation and audit standards, do not have a structural nature. Of course, the costs of more communications should not become excessive. At the same time, as investors ultimately pay these costs, it should be them to worry about "the bill" most. By and large, we believe that the challenges faced could be overcome.

When considering to what extent additional auditor communications are needed users' interests should be the primary objective, as referred to page 1 of the consultation paper. Investors and other users heavily depend on receiving adequate and reliable information from both listed companies and auditors, for them to take appropriate investment decisions. When this is

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achieved, investors will maintain confidence in the functioning of capital markets, including the services rendered to investors by audit firms.

If you would like to discuss our views further in detail, please do not hesitate to contact us.

Yours sincerely,

Rients Abma
Executive Director Eumedion

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15 January 2010

Greg Tanzer
Secretary General
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Public Comment on the Auditor Communications: Consultation Report

Dear Mr. Tanzer

Ernst & Young Global Ltd., the central entity of the global Ernst & Young organization, welcomes the opportunity to offer its views on the consultation report on Auditor Communications issued by the Technical Committee of the International Organization of Securities Commissions (IOSCO) in September 2009.

The consultation report provides a good summary of the long-debated issues around the standard audit report. It also recognizes that an expectation gap continues to exist, despite the many efforts over the years by the auditing profession, regulators and standard setters to address it. We fully support IOSCO's interest and efforts in considering whether the standard audit report communicates the appropriate information to users and whether its form and content facilitate audit quality. We believe that it is an opportune time to bring interested parties together to have a meaningful debate on auditor communications. We are willing and available to participate in a dialogue to provide additional information to meet user needs and to explore alternatives to do so in a way that furthers the public interest in a cost effective manner.

We offer the following comments in response to the questions in the IOSCO consultation report.

Current standard audit report

As noted in the consultation report, the primary purpose of the audit report is to express clearly the auditor's opinion on the financial statements and to describe the basis for that opinion. We believe that the standard audit report achieves that purpose by clearly articulating the scope of the audit (i.e., the financial information covered by the audit), the respective responsibilities of management and of the auditor, and the audit opinion. Consistency in the form of the audit report, when the audit has been conducted in accordance with globally recognized auditing standards, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with the same globally recognized standards. It also helps to promote users' understanding and to identify modified opinions or matters emphasized by the auditor, when they occur.

Despite the perceived shortcomings of the standard audit report discussed in the consultation report, users might not necessarily prefer, or benefit, from a more concise audit report, because the auditor's opinion would then be provided without the appropriate context.

Information needs of users

Any assessment of the sufficiency and quality of information available to users currently should first distinguish between information that users need to assess the quality of the financial statements and information that users need to assess the quality of the audit process.

If more information is needed on the quality of the financial statements to address an information gap, management and those charged with governance are in a better position to provide the information, given their respective roles and responsibilities for the entity and its financial reporting process. For auditors to provide such information would blur the importance of the separate responsibilities of management and the auditor in the financial reporting process, as well as the responsibilities of those charged with governance to provide oversight to that process. Whether or not this additional information is subject to an audit or a separate assurance engagement depends on the needs of users and the associated costs of reporting on the information. We concur with the statements in the consultation report that the audit report should not be used as a mechanism to deal with shortcomings in the information disclosed by companies to their investors and that other information gaps, such as those that relate to key matters discussed by those charged with governance and the auditor, may be better filled through disclosure by those charged with governance.

To the extent that users are looking for more information on the quality of the audit, a better understanding of the nature of the information that is sought by users is needed in order to determine how and where such information should be communicated. If the additional information relates to the audit process generally (for example, a better discussion of the auditor's responsibilities for the detection of fraud), this may be best communicated in the auditor's report. If users desire additional information on the audit process specific to the entity (for example, the auditor's application of professional judgment to the entity's response to a significant risk or estimate), it may be neither feasible nor practical to provide such information in the audit report. The additional time required to prepare the report to ensure that the information is clear and understandable, within the context of the audit of the financial statements as a whole, may very well exceed any expected benefits. There will always be a need, therefore, to balance what is in the public interest: consistency and comparability of the language from audit report to audit report or providing entity specific tailored information in each audit report.

New or revised auditor communications

The practical aspects of new or revised auditor communications first would need to be assessed on whether the communications are made in the auditor's report. If so, do they relate to the financial information covered by the auditor's report or to the audit process followed by the auditor to report on the financial information? While the wording of the additional communications on the audit process can be established by an auditing standard-setter for use in standard audit reports, any communication on the financial information (for example, on the quality of the entity's accounting policies) would be entity specific and the nature of such communications would likely be mandated by law or regulation. The resulting wording in the audit report would vary from one entity to the other, would lengthen the audit report and would run the risk of further confusing some users of the report. If the new or revised auditor communications are outside of the auditor's report, regulatory mechanisms would need to be established to enable the auditor to communicate to users and to set the liability regime for such communications.

Conclusion

We welcome IOSCO's consultation report to address whether changes to the standard audit report or additional auditor communications are warranted to meet user information needs. Any proposed changes to auditor communications, especially those that go beyond providing information related to the financial statement audit, would need to be carefully considered and their effects evaluated, both in light of public policy and related costs.

The findings from this consultation also will be an important input into the current International Auditing and Assurance Standards Board / US Auditing Standards Board project to consider the results of academic research on the audit report, as well as other available information regarding the usefulness of the audit report, in determining the most appropriate way forward for the profession, working in concert with regulators and various other user groups.

We would be pleased to discuss our comments with IOSCO or its representatives, at your convenience. Please send any correspondence to the attention of Denise Esdon (denise.esdon@ca.ey.com).

Yours sincerely,

Ernst & Young Global Ltd.

FAR SRS
The institute for the accountancy profession in Sweden

15th January 2010

Greg Tanzer
Secretary General
IOSCO General Secretariat
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Spain

Public Comment on the Auditor Communications: Consultation Report

FAR SRS, the Institute for the Accountancy Profession in Sweden, is responding to your request for consultation on the matters discussed in your Consultation Report on Auditor Communications.

FAR SRS welcomes IOSCO's contribution to the debate on the subject of auditor communications, and has with great interest studied both IOSCO's consultation report on auditor communications and the corresponding material published by the IAASB in its project on the audit report.

FAR SRS' general view is that the area of auditor communications is very complex, and FAR SRS' expectation is that the IAASB's research project will enable a more informed debate regarding the audit report and auditor communications in general. FAR SRS wants to emphasise that the audit industry and the standard setters need to be very proactive and sensitive to what form of communication the stakeholders require from the auditor.

FAR SRS' response to the detailed questions is set out in the Appendix to this letter.

FAR SRS

Anna-Clara af Ekenstam
Chairman of FAR SRS section for large entities

Dan Brännström
Secretary General

Appendix

Question 1: Is the standard audit report useful to investors? If not, why?

A standard audit report is useful to investors in that it gives the user assurance that a complete statutory audit has been carried out.

The research carried out by the IAASB[1, 2] shows that the audit report is not read by users in its entirety, but users are looking for only the following:

- Assurance that an audit has been carried out;
- Details of any modifications to the audit report;
- The name of the auditor; and
- (Although not mentioned in the research papers) we would assume the date of the audit report is also of importance.

Accordingly, the formulation of the paragraphs before the opinion is not important. Rather the length of the audit report makes it less probable that the report will be read (the research is not conclusive on this point, however).

Question 2: Would investors prefer a more concise audit report (e.g. a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

As set out in FAR SRS' response to Question 1, a shorter report would not, depending on how the expectation gap is dealt with (see our responses below), detract from the usefulness of the present audit report. Rather, a short-form report will give the vast majority of readers the information they are looking for and may even make more readers read through the report.

However, FAR SRS notes that some stakeholders may require a lengthier audit report instead. Hence, the question is very complex and there is a strong need for more information to enable a well-founded opinion on the future audit report. The current IAASB project regarding the audit report is therefore essential and, when it is completed and analysed, is expected to bring valuable knowledge in the area.

Question 3: Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information – management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g. an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, and auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g. a revised standard audit report or a new auditor

[1] Mock, Turner, Gray, Coram: The Unqualified Auditor's Report: A study of User Perceptions, Effects on User Decisions and Decision Processes, and Directions for Further Research, May 11, 2009
[2] The number of respondents to this investigation is small and further research to support the conclusion would probably be valuable. FAR SRS believes, however, that the results are not counterintuitive.

communication)? How should this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

There is obviously an expectation gap between what the auditors believe they should provide and what the user community would like to get. Porter[3] et al. have provided a very useful split of this expectation gap into three types of differences:

- The main part of the gap depends on unreasonable expectations, such as the users' wanting to know whether a particular company would be a good investment.
- The major part of the remainder of the gap relates to areas that the auditor could possibly cover, but where there is at present no requirement for the auditor to do so. One example is additional reporting requirements for internal control, which at present is not a requirement in most jurisdictions. Other examples might be sustainability information, energy consumption etc.
- A small part of the gap relates to the auditors not exercising their duties to the right quality and extent.

It should first be born in mind that the expectation gap has existed probably as long as there have been auditors. FAR SRS would therefore, humbly, suggest that these three differences described above be dealt with as follows:

- Attempts have been made to deal with the expectation gap through the wording of the current audit report. FAR SRS believes it is now proved beyond reasonable doubt that this cannot be the only method to deal with the gap[4]. FAR SRS believes as set out above that a short-form audit report is preferable. Therefore the gap must be dealt with differently. It is very much about communicating with the users and this communication could take many forms. Ideas might include getting more space in university education, in education for those that work with investments, such as bankers and stock-brokers. It could also include writing easily accessible text books. The web-sites of institutes could be used to explain what an audit is, possibly with links from brokers, banks etc. FAR SRS believes that if this way is attempted, the profession should be thinking very broadly in order to popularise the subject.
- As to aligning expectations with what auditors could actually provide, this would have to be subject to cost-benefit analyses. In many cases the additional comfort desired by users would not meet the additional costs under such an analysis. One fact mentioned in the research is that users may believe that the term "on a test basis" means that the auditor has audited some 30% of sales transactions. Obviously this is a request that can be met only with prohibitive costs in other than the smallest companies.

[3] Porter, Hógartaigh and Baskerville: Report Conducted in the United Kingdom and New Zealand in 2008 Investigating the Audit-Expectation Performance Gap and Users' Understanding of, and Desired Improvements to, the Auditor's Report, September 2009
[4] The Commission on Auditor's Responsibilities (the Cohen Commission) points out that: "The auditor's standard [short-form] report is almost the only formal means used to educate and inform users of financial statements concerning the audit function." (Quoted from Porter et al).

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Expectations that do not meet the cost-benefit test should be dealt with in the way suggested above for unreasonable expectations.

- Porter et al. suggest that the best way to deal with the part of the expectation gap related to substandard performance is more publicity about the supervision and quality control processes. FAR SRS believes this is a good suggestion.

FAR SRS believes that the IASB has created reporting requirements that give investors sufficient information to make informed investment decisions. The work of the IASB is ongoing. Any further information about the company should be required by accounting standards, not by auditing standards. The auditor's role is to ascertain that all information required to be given under IFRS is actually given, and if it is not, to report this fact.

One desired piece of information is a discussion of risks. If auditors were required to report specifically on risks or estimates, as some would wish, it would be highly unlikely that the information that the auditor provided would in any way deviate from what the company reports in its financial statements. If there were significant differences of opinion between manage-ment and the auditor, then the auditor would have to qualify his report. (It sometimes appears as if some users believe an audit report is written without discussion with management, where in actual fact everything that is written in both the financial statements and in the audit report is a matter of detailed conversations between management and the auditor.)

If something discussed with the board is material to the financial statements, then that matter must either be adjusted in the financial statements (which is what normally happens) or lead to a qualification in the audit report. Consequently, matters discussed with the board and not leading to change or qualification are not sufficiently significant to report to users. Therefore, reporting in the audit report more of what has been discussed between management and the auditor might move focus away from the financial statements where the important information can be found, to matters that are not equally significant. Such a requirement might also lead to fewer matters being reported to management, and, in particular, to the board as there would be reluctance to report more in the audit report. An open discussion with the board and the management is an audit requirement, and it might be more difficult to adhere to if a requirement for additional disclosure in the audit report was implemented.

In FAR SRS' opinion much of the information that some users would like to obtain from the auditors relates to borderline cases, i.e. those cases where the auditor has considered a problem and concluded on it. These users seem to want to second-guess the auditor's judgement. This would lead to a situation where the auditor carries out specified procedures and leaves it to users to draw the conclusions from the findings. Again, giving emphasis to borderline cases might move focus away from what is the important information in the financial statements.

Some users want more information about how the audit was carried out. Requiring such information will quickly lead to standardised wording. Audit firms are in competition and a

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"good wording" expressed by one firm will quickly spread to the others as all firms want to show that they are performing first-class audits.

Another suggestion that has been made is to include in the audit report what level of comfort the reader gets from the audit report divided between different balance sheet and income statement accounts. FAR SRS believes such information to be contrary to the approach taken by the IAASB about risk and materiality for the financial statements as a whole. The suggested approach seems to indicate that the audit should be diversified by auditing cash and other items to lower materiality levels than items with higher risk, such as inventories and estimates. FAR SRS does not believe the additional effort in adding audit effort on lower risk items is beneficial to users. Additionally, FAR SRS believes a report setting out different risk levels for individual items is both impossible to prepare with any substance and would greatly confuse readers. The general reasoning about difficulties in carrying out audits should be dealt with in general education of and communication with users as set out above.

Whether additional grades in the audit report, such as the quality of accounting, would be beneficial to users or not is a complex matter. If additional grades were to be introduced in the audit report, strict but practical criteria for each grade would need to be developed. Otherwise the system would rapidly be subjected to inflation, since every board would want to get the highest grade. Furthermore, a grading system based only on general judgment by the auditor would probably only expand the expectation gap. As indicated in FAR SRS' response to question 1, when the current research project carried out by the IAASB on the audit report is completed and analysed, FAR SRS expects that the ability to have a debate on the future audit report will be highly improved. If the results from the IAASB project show that the market needs and demands more communication in the audit report, and the audit standard setters can provide the practical tools, it is in FAR SRS' opinion essential that the auditors meet such demand.

Question 4: If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g. instead of new or revised auditor communication mechanisms such as new or revised disclosure by management or those charged with governance)?

See question 3 above.

Federation of European Accountants
Fédération des Experts comptables Européens

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auditorcommunications@iosco.org

13 January 2010

Ref.: AUD/HvD/HB/LA/SH

Dear Mr. Tanzer,

Re: FEE Comments on the IOSCO Technical Committee Consultation on Auditor Communications

(1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Technical Committee of the International Organization of Securities Commissions (IOSCO) Consultation on Auditor Communications (the IOSCO Consultation Paper).

(2) FEE welcomes the debate on auditor communications which has attracted the attention of a variety of stakeholders around the globe. The IOSCO Consultation Paper is one of the contributions to the global debate on auditor communication on all entities, whether public interest entities or others, in addition to the views of large and small investors, issuers, preparers, regulators, legislators, standard setters and auditors. FEE would also like to draw attention to two of its own publications, parts of which are relevant to this debate: FEE Issues Paper "Principles of Assurance"[1] and FEE Paper "Selected Issues Relating to Financial Statement Audits"[2] both of which are accompanied by executive summaries.

(3) The users of the auditor's communication consist of a variety of groups in addition to investors as also audit committees, management, boards of directors, regulators and various stakeholders should be considered when identifying user groups of audit reports. This has also been highlighted in the IOSCO consultation paper in its reference to ISA 200[3] *"A financial statement audit is designed to enhance the degree of confidence of intended users in the financial statements*".

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[1] http://www.fee.be/search/default_view.asp?content_ref=115
[2] http://www.fee.be/search/default_view.asp?content_ref=771
[3] International Standard on Auditing 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

(4) FEE therefore strongly believes that all stakeholders as mentioned above should work together to improve communication to investors without any particular stakeholder taking this debate forward unilaterally. FEE would therefore recommend that IOSCO publishes the responses received to this Consultation Paper, as well as a summary thereof to aid transparency towards all stakeholders concerned. It should be noted, however, that IOSCO is likely to receive more comments from investors that believe that auditor communication needs to change as those investors who believe that the current position is working are less likely to respond to this consultation; also investor responses are more likely to be forthcoming from larger representatives of the investor community than from those with smaller holdings, such as private individuals who nevertheless have a direct interest in auditor communications.

(5) The main issue when considering the IOSCO Consultation Paper is in FEEs view the need for clear disclosures and communication to investors made by management and those charged with governance of the entity. Such clear disclosures will enable investors to make proper and informed investment decisions. The role of investors is to conduct proper analyses of the information available from various sources.

(6) The role of auditors is to express an opinion on financial information provided by management and those charged with governance. In our view, auditors do not have a role in providing to investors or other stakeholders additional financial information about the entity that has not been provided by the entity itself.

(7) Our comments and the responses to the questions set out in the IOSCO Consultation Paper should be read in this context and centre on matters of principle that are of relevance to the European accountancy profession as a whole and are not formed from the viewpoint of investors.

Question 1. Is the standard audit report useful to investors? If not, why?

(10) FEE believes that having a standard audit report as set out in the International Standards on Auditing (ISAs)[4] is useful to investors as it promotes consistency across the globe. As stated in ISA 700 on "Forming an Opinion and Reporting on Financial Statements", consistency in the auditor's report promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. It also helps to promote the user's understanding of the audit and also to identify unusual circumstances when they occur.

[4] ISAs as issued by the International Auditing and Assurance Standards Board (the IAASB).

(11) In this context, we would like to point out that the IAASB's recent Clarity Project has resulted in certain changes to auditor reporting which have yet to come into force, and thus have not yet been assessed by investors or included in this debate to this date.

(12) Furthermore, the IAASB has also commenced a research project on the auditor's report as referred to in our response to question 2 on pages 4 and 5. FEE supports this report and is open-minded for assessing its results.

(13) The audit report on annual financial statements expresses the opinion of the auditor based on the work carried out and in addition describes the basis for that opinion. The audit is related to the historical information presented and disclosed in the annual financial statements.

(14) As stated above the audit covers historic financial information, however, decisions made by investors are made for optimising future returns on the investments made. Therefore, an inherent gap appears to exist between an audit report on historical annual financial statements and investment decisions made for future benefits. However, FEE continues to believe that the audit report is indispensable for investors as it provides them with an opinion on this historical financial information at a set point in time that can be used to build their forward looking projections.

(15) As the audit report is designed to reflect the opinion formed by the auditor as to whether the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework, the audit report will contribute to ensure the comparability between financial statements for different entities and for different periods. Considering this objective with the audit report FEE is of the view that a standard audit report is useful for the users of the financial statements, including investors.

(16) The IOSCO Consultation Paper comments on the information gap between investor information needs and the information that entities publicly disclose. FEE agrees with IOSCO that in case of these gaps additional information should be disclosed by the appropriate and relevant party. FEE therefore strongly believes, in line with IOSCO, that information from auditors can not compensate for lack of information from management or those charged with governance as they have the best understanding of the entity. If investors were to bypass management and obtain information directly from the auditors this would fundamentally change the relationship between management and those charged with governance of an entity and the auditors.

(17) In the consultation paper IOSCO also comments on the expectation gap stating that *"the standard audit report lacks detail around the effort exerted by the auditor in planning and performing the audit."* In this connection FEE would like to highlight that part of the expectations gap can be viewed as an education gap. In aiming at eliminating this education gap all involved parties, such as investors, standard setters, regulators, academics and auditors, play an important role in bridging this gap. Each party is responsible for explaining the information needs and the standard audit report forms a part of that. However, it

might be more appropriate that more information on the work undertaken by the auditor is made available in other formats.

(18) The IOSCO Consultation Paper suggests that additional communications in the audit report could result in more transparency which would enable investors to assess the quality of the audit and auditors. FEE is of the view that the purpose of an audit report is not to assess audit quality as the audit report is a record of the audit opinion on this process as a whole. Instead audit quality and improvements to it is the responsibility of audit oversight regimes and their reports should help investors assess audit quality. In Europe a description of the internal quality control system and a confirmation of the effectiveness of its functioning by the management of the audit firm is published by all audit firms auditing public interest entities in accordance with Article 40 of the Statutory Audit Directive. FEE is of the view that such communication on audit quality is sufficient without there being a need to include such information in audit reports.

Question 2. Would investors prefer a more concise audit report (*e.g.*, a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

(19) FEE is a long-standing supporter of the implementation of International Standards on Auditing (ISAs) for audits in Europe. FEE also supports the audit report as set out in ISA 700 "Forming an opinion and reporting on financial statements".

(20) The IAASB has undertaken a research project to analyse the usefulness of the audit report, as per its Strategy and Work Program 2009-2011, which is also highlighted in the IOSCO Consultation Paper. When conducting this research project, the IAASB is expected to gather input from a wide range of stakeholders, including investors, in accordance with its rigorous due process.

(21) Some preliminary results of this research project have been discussed at the IAASB Board in December 2009 based on analyses carried out by the IAASB Working Group responsible for the project[5]. The preliminary results show among other things that auditors' reports are valued by users mainly due to its existence rather than its content and that the audit expectations gap surrounding the scope and purpose of an audit of financial statements, and the auditor's role and responsibilities in that regard, is persistent and very hard to change. The IAASB working group has recommended that the information and key messages obtained from this project to date would be a useful preliminary basis for a further consideration of auditor reporting issues.

[5] http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191

(22) Although expressing general support for the audit report as defined in ISA 700, FEE would be of the view that improvements to the current standard ISA audit report could be considered as mentioned by other commentators when raising some points of criticisms on the current audit report as highlighted in the IOSCO Consultation Paper.

(23) Therefore, FEE supports the research project of the IAASB and is open-minded for assessing its results. However, it is important to FEE that any changes to the audit report should continue to ensure that the audit report is concise, cost effective and balanced as far as responsibility and liability is concerned. As FEE is a strong believer in the concept of 'an audit is and audit', any changes should ordinarily also be applicable to audit reports for all entities and not solely to audit reports for public interest entities. FEE would therefore recommend to wait for the final outcome of the IAASB research project as FEE believes it is too premature to conclude on the usefulness and quality of the audit report before the IAASB research project has been completed.

Question 3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (*e.g.*, an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (*e.g.*, a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

(24) The level of auditor's involvement with providing information to investors should be considered from a cost/benefit perspective – the auditor's engagement risk may make some engagements of a prospective and/or subjective nature prohibitively expensive - and from a theoretical perspective it will depend on the ability to identify suitable criteria and the level of assurance agreed.

(25) In addition, auditors' involvement with and responsibilities for providing information to investors regarding the financial situation of an entity cannot exceed the responsibilities assumed by management and/or those charged with governance of that entity. The various parties, management, those charged with governance, auditors, investors, regulators, other users etc, all have different levels of responsibility when it comes to involvement with an entity and its decision-making process. This entails that the different parties also have different information needs for them to successfully assume their respective responsibilities. FEE is therefore not of the view that the same information and the same information flow are equally available to all parties, it should rather be focused and directed in a way that is most relevant for each party to assume its responsibilities.

(26) Furthermore, the audit report provides information to investors annually, whilst investors in general require information to be available for them much more frequently. Such additional information to investors is currently provided under the responsibility of the management of the entity as part of the regular dialogue between an entity and its investors. Auditor's involvement with providing information to investors, if any, can only be secondary to management's primary responsibility for the information provided. In addition, management and those charged with governance, including the board(s) and audit committee, carry out their decisions on behalf of and by delegation from the shareholders and investors of the entity. If investors are not content with the decisions made or the information received, investors will in accordance with the legislative requirements and the statutes for the entity, have the ability to influence the decisions made, including the decision to appoint other individuals.

(27) In this context it is important that management ensures that the entity has provided all the relevant information needed by investors to take informed investment decisions as required under IFRS and European legislation. If management does not comply with the requirements for true and fair presentation of the entity's financial statement, the auditor performing a financial statement audit will have to consider the implications of that on their audit report.

(28) The various users have different information needs, especially considering the broad variety of users of the audit report. Based on the analysis carried out by the IAASB Working Group on Auditor's Report, the preliminary conclusion is that *"users appear to want additional reporting of matters that are covered by an audit of financial statements, and also of matters that are not currently covered by the audit of financial statements"*. One of the research studies commissioned by the IAASB concludes in this context that one example of this additional reporting by the auditor could be *"disclosures of information/messages communicated to the audit committee of the audited entity"*[6].

(29) In this context it should be highlighted that the basic requirements for information submitted to an audit committee of European public interest entities are set out in Article 41 of the Statutory Audit Directive where the statutory auditor is required to *"report to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process".* This information from the auditor to the Audit Committee is therefore under European legislation directed at the Audit Committee and is not intended to be published. The information is therefore confidential information and cannot necessarily be published by the entity itself. If the information is considered to be price sensitive information, all listed companies under European legislation are in any case required to publish this information in accordance with the requirements in the directives on Market Abuse and Transparency.

[6] http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191

Question 4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (*e.g.*, instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

(30) As stated above, FEE believes that additional information besides information given by the auditor in the audit report on the annual financial statements could be considered to be provided.

(31) In general, auditors' involvement and responsibilities for providing information to investors regarding the financial situation of an entity cannot exceed the responsibilities assumed by management and/or those charged with governance of the entity. In the European Union, direct auditor communications are subject to a variety of more or less restrictive national laws and regulations and are oftentimes limited to private auditor communications to specific regulators. Currently, only in cases where management and/or those charged with governance do not comply with applicable reporting requirements and this lack of information affects the true and fair view of the financial statements, the auditor has to consider to publicly inform investors of this fact.

(32) In response to the second paragraph under 'Advantages and Disadvantages' on page 20, we would also like to point out that transparency in the audit process and audit reporting does not necessarily enhance audit quality. For further detail in this respect, we refer to the FEE comments on the IOSCO Consultation Paper on Transparency of Firms that Audit Public Companies.

(33) Furthermore, investor decisions for optimising future returns on investments made are normally based on prospective and forward looking information. Therefore, management and those charged with governance of an entity supplement the information in the annual financial statements with more timely financial and other information on the entity, which is provided in documents such as analysts' briefings, quarterly and half-yearly financial highlights. The level of auditor's involvement should be considered from a cost/benefit perspective. The level of work required may make some engagements of a prospective and/or subjective nature prohibitively expensive. In addition such prospective information cannot be covered effectively by an audit or assurance engagement and auditors would thus have difficulties in providing a useful opinion on such information. If an opinion on forecast information is to be provided auditor's liability for any forecast information, which with hindsight is revealed as not reflecting the outcome, should be taken into consideration in this context.

(34) Preparers and issuers could be invited to consider which other information could be made public for the benefit of investors without harming the operational, commercial and other interests of the entity.

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

(35) Therefore, a broad-based debate with all relevant stakeholders is preferable before far-reaching legal and regulatory changes would be envisioned.

For further information on this FEE letter[7], please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be from the FEE Secretariat.

Yours sincerely,

Hans van Damme
President

[7] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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15 January 2010

Dear Mr Tanzer

Public Comment on the Auditor Communications: Consultation Report

Grant Thornton International Ltd (Grant Thornton) welcomes the opportunity to comment on the above-referenced consultation report, and we support the approach taken by IOSCO in seeking views from stakeholders.

Support for the IAASB as the sole international body to set auditing standards

Grant Thornton supports the International Auditing and Assurance Standards Board (IAASB) as the sole international body to set standards of auditing. We are pleased that IOSCO shares this view, as explained in its June 2009 statement welcoming the publication of the clarified ISAs. In our opinion the IAASB enjoys widespread support from the Financial Stability Board, the European Union and more than 100 countries because the standard setting process is robust and is enhanced inter alia by input from the Monitoring Group, the Public Interest Oversight Board and the Consultative Advisory Group.

We agree that securities regulators have an interest in ensuring high quality global standards of auditing and reporting; therefore we strongly support IOSCO's engagement with standard setters and in the standard setting process, and we assume that IOSCO will use the results of this consultation to feed into the IAASB's work related to auditor communication, which will enable IOSCO to most effectively support the G20 vision in the auditing context for development and adoption of a single set of high quality international standards. We would not support an alternative recommendation to IOSCO member bodies on auditor reporting.

Concerns about the structure and wording of the current audit report

We acknowledge that concerns exist about the structure and wording of the current audit report. Grant Thornton welcomes discussion among all stakeholders. We support change to the auditor reporting model where that change is demonstrated to have the broad support of investors, who have been acknowledged by IAASB and the International Accounting Standards Board (IASB) as the primary users of financial statements. In a survey by Ipsos Mori(1) of more than 400 investors across nine countries, when asked for their preference 43% supported a "longer, more detailed report," and 41% supported a "shorter, more succinct report." Accordingly, we question whether there is yet broad consensus among investors on what changes should be made to the audit report, but we support IAASB and other efforts to identify where there is agreement.

Factors to consider with respect to auditor communications

We note from comments reported from the IOSCO roundtable, and subsequently in other fora, that there is a wide range of views on how the auditor should report its audit findings. Some investors favour a straightforward opinion from the auditor that is clear, unambiguous and requires the auditor to arrive at a qualified/unqualified decision. Others consider that a qualified or unqualified audit opinion meets only minimum needs, and they want the auditor to support its opinion with statements about, among other areas, the relative quality of accounting records, judgments and estimates made by management, and/or judgments made by the auditor. Grant Thornton will support changes to the audit report which improve clarity and foster greater understanding by users.

We believe that some form of auditor reporting in addition to the audit would be valuable to investors because they receive significant information from the company on which there is no form of independent assurance. Therefore, we would welcome discussion of all aspects related to such reporting including assurance standards and liability limitation.

In our view the issue of communications to investors is wider than just audit reporting. We set out below some of the factors that we expect will form part of the discussion around communications to investors:

- There is a fine line between informative, entity-specific auditor reporting and unclear or inconsistent language in the audit report.

- Many of the calls for more information about audit quality would more appropriately be addressed by greater transparency of findings from auditor oversight entities.

- Many of the calls for more entity-specific information to be provided by the auditor would more appropriately be addressed by better disclosure of judgments and estimates by management and audit committees.

- Discussions about additional information provided by the auditor in the audit report sometimes stray beyond reporting on the financial statements, which will require consideration of issues related to cost versus benefit, the addressee of the audit report, and the potential impact on the investor's understanding of the role of the auditor.

We support more meaningful commentary and analysis by preparers, which is the subject of ongoing work around the world. For example, the International Corporate Governance Network has produced a Statement and Guidance on Non-Financial Business Reporting (2008), and the IASB has an ongoing project on Management Commentary. Valuable disclosure will be specific to the entity and its business, contain financial and non-financial information, put historical information in the context of the entity's strategy and goals, and build on historical information in giving forward-looking analysis.

* * *

We answer the specific questions posed by the Committee in an appendix to this letter. If you have any questions on this letter, please contact April Mackenzie (phone: +1 212 542 9789; email: April.Mackenzie@gt.com); or Nick Jeffrey (phone: +44 207 728 2787; email: Nick.Jeffrey@gtuk.com).

Yours faithfully

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(1) Ipsos Mori Global Investor Survey 2009 The Standards Working Group of the Global Public Policy Committee (GPPC) commissioned Ipsos Mori to conduct research among investors who buy, sell, and/or analyse securities. Over 400 interviews were conducted. The research was fielded during 2009 in the US, UK, France, Germany, Japan, India, Singapore, Hong Kong, and China

Appendix – Consultation Questions

Question 1: *Is the standard audit report useful to investors? If not, why?*

Grant Thornton response: Investors have told us during informal discussions that they find the audit report useful in that they appreciate a formal opinion on the fair presentation of the financial statements prepared by management.

However, our informal discussions with investors also indicate a desire for a greater understanding of the judgments made by the auditor in reaching its audit conclusion, where that information does not form part of the disclosures about judgments and estimates made by management in the audited financial statements (see response to question 3 below).

The usefulness of the audit report is evidenced in many jurisdictions by a statutory requirement for an independent audit of the financial statements. The courts and audit regulators also treat the audit opinion as valuable.

Question 2: *Would investors prefer a more concise audit report (e.g., a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?*

Grant Thornton response: Our understanding is that investors largely ignore the standard explanatory text in the body of the audit report, and concentrate only on the opinion section.

Nevertheless, the other paragraphs give context to the opinion and provide clarity on the relative responsibilities of management and auditors. We believe removal of those paragraphs would lead to a deterioration of understanding by investors.

Question 3: *Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g., an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g., a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?*

Grant Thornton response: We believe that investors are receiving information about the audit that they need to make informed investment decisions. However, we have heard from some investors that additional information would be helpful. A common though not universal view expressed by investors is that the auditor could usefully explain judgments and estimates made in preparing and auditing the financial statements. While the auditor's opinion is based on information that is available to management, the auditor's knowledge of the business is not as deep as management's knowledge. The judgments and estimates made in the preparation of financial statements are those of management. Therefore better disclosure of judgements and estimates in the financial statements should be the primary responsibility of management, and those disclosures would fall within the scope of the audit opinion on the financial statements.

It is the responsibility of management to communicate with investors about risks to the business as they have sole responsibility and authority for such decisions. The auditor already has a responsibility to report where it identifies statements by management alongside the financial statements in the annual report (including statements about risk) which are inconsistent with the auditor's understanding of the business.

We believe that for the foreseeable future a qualified/unqualified opinion on the financial statements will continue to have value to investors because all other disclosure about the business is built on that bedrock. However, we also support continuing engagement with investors to enhance understanding and seek changes in auditor reporting where they would derive benefit that exceed the cost.

To summarise, we believe that much of the additional information about the audit that is requested by some investors is more appropriately given by management, such as that related to controls, risk, risk management, and judgments and estimates in financial reporting. Information about audit quality is more meaningfully given by auditor oversight bodies. We believe that the current auditor reporting model has value, but that there could be scope for enhancements.

Question 4: *If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g., instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?*

Grant Thornton response: The guiding principle for standard setters in considering provision of additional information to investors about the financial statements, including relative reliability of that information, should be that it enhances the understanding of those investors in a cost effective manner.

We believe that there is scope for an international standard for the auditor to give an additional opinion on the operation of internal controls over financial reporting where management is required to assess reporting risks, design reporting controls and implement appropriate procedures.

The legal, regulatory and practical challenges will follow from the nature of additional information. Legal challenges could include duty of care of the auditor, liability of management and/or the auditor, and safe harbour provisions to encourage meaningful disclosure by management and/or the auditor. Regulatory challenges would include whether any additional disclosure by auditors, and the work required to support that disclosure, should fall within the remit of the audit regulator. Investors will want to ensure that the benefits of additional information justify the additional costs incurred by the company.

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SENT BY EMAIL: AuditorCommunications@iosco.org

15 January 2010

Dear Mr. Tanzer,

Auditor Communications – Response to Consultation Report

We strongly welcome this IOSCO initiative to consider key matters in relation to the audit, and welcome the opportunity to comment on the consultation in relation to auditor reports.

By way of background, Hermes is one of the largest asset managers in the City of London. As part of our Equity Ownership Service, we also respond to consultations on behalf of many clients from around Europe and the world, including the BBC Pension Trust, Highland Good Steward (USA), the Lothian Pension Fund, PKA of Denmark, The National Pension Reserve Fund of Ireland, PNO Media (Netherlands), Canada's Public Sector Pensions Investment Board and VicSuper of Australia (only those clients which have expressly given their support to this response are listed here).

We firmly welcome IOSCO's attention to the issue of audit reports. These are currently unsatisfactory and should be significantly enhanced. We are strong supporters of the new UK audit report, as highlighted in the IOSCO consultation, and believe that this can and should form the basis for audit reports internationally. We would, however, welcome these reports being extended further by including an auditor view as to the relative aggressiveness of the accounting judgements made by the reporting entity. We would also welcome requirements for the auditor to report on further disclosures by management and those charged with governance such as those we outline in response to the final question.

We answer the specific questions in the consultation paper below.

Yours sincerely,

Paul Lee
Director

1. Is the standard audit report useful to investors? If not, why?

The current audit report is not useful to investors.

At present the audit report contains much that is not a report from the auditor. Rather, it is a defensive outline more of what the auditor does, and indeed, does not do – apparently designed solely to limit the auditor's liability rather than enlighten investors with regard to the audit or audited entity in question. Even the outline of what an audit involves seems designed from this negative perspective rather than a positive one. We believe that this sort of audit report not only does not provide value to investors, it does a significant disservice to the audit profession by emphasising not the value that the auditor brings through the audit but rather highlighting what investors should not expect from the auditor. We believe that this is the more important expectations gap these days: through such poor reporting to investors, they are invited to expect nothing of value from an audit. If the profession genuinely wishes to foster its own future we need to ensure that rather than emphasising what little can be expected from an audit, the audit report needs to highlight the positive value that an audit brings for investors.

These issues are sometimes referred to as 'readability'. We do not believe that the current problem with auditors' reports is that they are not readable but rather that they are not worth reading: currently the page-long or more reports published in every annual report boil down to a single sentence which is informative, and that provides simply a yes or no answer. We would welcome reports which were worth reading because they give us as shareholders some insight into our company and into the quality work which the auditors have carried out.

2. **Would investors prefer a more concise audit report (eg a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?**

We would welcome reform of the audit report. We believe that a refocusing on the positive value added by the audit is needed and that will require a removal of the excess verbiage which emphasises more what an audit does not do than the value that it brings.

This would argue for a radical trimming down of the audit report to a more concise form, though we are not supporters of a reduction to a single line. We are strongly supportive of the new UK audit report – and played a key role in helping develop this new approach – which removes the useless language and so helps focus attention on the range of audit decisions made before the audit is signed off, including both the positive and the negative reassurances given to investors.

As in the UK, however, we would regard this paring down of the audit report as only a first step to a further realignment of the audit report with the needs of investors. We would welcome much more company-specific discussion in audit reports – not simply the generic industry discussion seen in the French long-form reporting – and believe that this is a crucial way for auditors genuinely to demonstrate the value which they are adding for investors. We are part of the UK working group on this issue and we would hope that IOSCO and other regulators will be responsive to the conclusions of this group.

One area which we are keen to see explored is the extent to which there is scope for the auditors to report on their view as to the degree of aggression in the audited entity's accounting choices.

3. **Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (eg an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (eg a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?**

As discussed above, we do not believe that the current audit report is fit for purpose. It does not provide useful information to investors. We acknowledge that there are limits to what the auditor can be expected to report in terms of statements which are not responding to items in existing corporate reporting rather than in terms of commentary on management statements or comments by those charged with governance. The appropriate first step in many cases will be more qualitative reporting by management and/or those charged with governance on the judgements and decisions involved in making their reports to investors, and then subsequently the auditor can be asked to report on the quality and transparency of these management disclosures. This is one of the attractions of the new UK model for the audit report: it introduces a framework under which auditor comments by exception are formally brought to investor attention even where the exception is not triggered, enabling users of financial reporting a fuller insight into the work of the auditor and additional confidence in the reporting by management.

We believe that the audit report is the right place for enhanced reporting by the auditor and would not welcome the introduction of a new parallel form of report.

We believe that asking auditors to make more of a qualitative statement on the audited entity's reporting would provide investors with real value and that this value would certainly not be diminished over time – provided that the willingness of auditors to make professional judgements was not diminished over time.

4. **If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (eg instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?**

We do not believe that there are relevant legal, regulatory or practical challenges to auditors providing investors with enhanced reporting. We believe that there is a barrier in the form of professional will among the auditing profession to make more apparent the value which its work brings.

As indicated above, we would welcome enhanced disclosure requirements of management and also those charged with governance, and we would also welcome enhanced disclosure requirements of the auditors to respond to these disclosures, probably in terms of highlighting where the disclosures are contraty to evidence highlighted in the audit, or a statement that there was no such evidence identified as well as to make the qualitative comments regarding the degree of aggressiveness in the accounting choices made by management. The areas on which we would welcome further company disclosure, and auditor assurance in response to, would be:

- *reports from management – the up to five key areas of audit judgement and why the relevant accounting choices have been made; which are the key assumptions embedded within the corporate reporting and what impact would alternative assumptions have made; significant changes to the business, including segmentation, capital structure, M&A divestments, and the reasons for these; risk management appetite and approach.*

- *reports from the audit committee (or equivalent forum for those charged with governance) – the up to five key areas of accounting judgement which they asked the audit to focus on and which proved the largest areas of discussion with the auditors; how did the committee reach its view on key concerns identified in the audit and how these were addressed; how recommendations from past audits were followed up how the committee gains effective confidence regarding risk oversight and the effectiveness of mitigation.*

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January 15, 2010

Greg Tanzer
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Electronically via AuditorCommunications@iosco.org

Dear Mr. Tanzer,

Public Comment on the Auditor Communications: Consultation Report

The International Auditing and Assurance Standards Board (IAASB) shares the view that financial statements are one of the most important sources of information that investors use in making investment decisions. It is therefore critical that the auditor's report – the primary means by which auditors communicate to users of financial statements regarding their audits – needs to communicate appropriate information to users and its form and content should facilitate audit quality. For these reasons, the IAASB has revised its International Standards on Auditing (ISAs) that address auditor reporting. These ISAs are now effective for audits of financial statements for periods beginning on or after December 15, 2009.

The IAASB also shares the view that users' understanding of the auditor's report, their perceptions thereon, and whether their needs are being met are extremely important topics in the discussion of the role of auditor communications. Accordingly, the IAASB has commenced discussion of key messages concerning user perceptions of the auditor's report identified from analysis of relevant information on that subject.[1] This information includes findings from four research studies[2] that examined the nature of user perceptions regarding the financial statement audit and the auditor's report among various classes of financial statement and audit report users in international settings. Related, the IAASB has also held initial discussions at its December 2009 meeting on the topic of audit quality more generally, recognizing that audit quality and auditor communications are closely linked.[3]

1 IAASB Agenda Item 4, *Auditor Reporting Research*, December 2009, available at http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191

2 The four research studies were commissioned jointly by the IAASB and the Auditing Standards Board of the American Institute of Certified Professional Accountants.

3 IAASB Agenda Item 12, *Audit Quality*, December 2009, available at http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1196

Accordingly, while the IAASB appreciates the opportunity to comment on the IOSCO Technical Committee's Consultation Report on Auditor Communications, it is not in a position to do so at this early stage of its work to examine and deliberate the issues.

We believe the work of the IOSCO Technical Committee will provide a further important source of information. We would be pleased to discuss how best to incorporate the current efforts of the Technical Committee in the deliberations of the IAASB.

Please do not hesitate to contact me should you wish to discuss these topics further.

Yours sincerely,

Prof. Arnold Schilder

Chair, IAASB

CC: Ian Ball, Chief Executive Officer, International Federation of Accountants (IFAC)

James Gunn, Technical Director, IAASB

Diana Hillier, Deputy Chair, IAASB

Jim Sylph, Executive Director, Professional Standards, IFAC

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15 January 2010

Dear Mr Tanzer

IOSCO CONSULTATION PAPER: AUDITOR COMMUNICATIONS

The Institute of Chartered Accountants of Scotland's Audit and Assurance Committee welcomes the opportunity to comment on the above Consultation Paper.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Audit and Assurance Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The Institute's Audit and Assurance Committee (AAC) recently commissioned its own research on the subject of auditor communications. A survey and a series of interviews sought the views of investment professionals on the usefulness of the statutory audit and the audit report. The ICAS Research Committee also sponsored a piece of research by Professor Ian Fraser of the University of Stirling, which is due to be published early 2010. This research focused specifically on the management commentary in the context of the audit but also considered the usefulness of the audit report more generally.

The Committee felt that it was difficult to discuss changes to the audit report in isolation without considering corporate reporting in its entirety. Many issues identified with the audit report are also suggestive of deficiencies in corporate reporting.

It is the view of the Committee that this consultation should feed into a wider debate on the future of corporate reporting at the international level. IOSCO should ensure that the findings from this

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consultation are reported to the IAASB and other interested parties and further consultation and discussion should be undertaken.

The Committee used the research findings to form the basis of a focused discussion on what the audit report should look like. Our responses to the specific questions can be found below.

Question One
Is the standard audit report useful to investors? If not, why?

Response
Our research supported a clear consensus on the high value placed on the statutory audit and overall a good understanding of what the audit involved and its inherent limitations. Respondents generally agreed that they did not read the audit report unless it expressed a qualified opinion. Some felt that the audit report was quite long and that there was not enough company-specific information.

The Committee felt that the current audit report had expanded over time as a result of the perceived expectation gap and liability concerns. Our research suggests that the expectation gap is not as wide as initially thought and therefore there may be no need to include such wording within the report itself. The Committee suggested that much of the wording could be relegated to a website hyperlinked to the report, keeping the report itself shorter.

The Committee firmly believed that the audit opinion should continue to state whether the accounts are true and fair or not. A qualified or unqualified opinion is simple and easily understood – the layman can immediately identify whether there is any cause for concern. The fact that respondents to our survey only read a qualified audit report demonstrates that the current opinion is capable of signposting whether the audit report contains further decision-critical information. The current audit opinion also allows investors to compare the audit reports of different companies with relative ease.

The views of the respondents to our research and those of the Committee support the retention of the current audit opinion. However, we would like to see the report simplified with much of the explanatory wording included on a publicly available website and hyperlinked from the report.

Question Two
Would investors prefer a more concise audit report (e.g. a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

Response
As explained in the answer to Question One, the Committee felt that the audit report should contain the audit opinion and the bare minimum of additional wording. The current opinion states that the financial statements are true and fair and not materially misstated. In addition, the UK audit report contains an additional opinion on consistency between the annual report and the financial statements and further requirements under legislation. Other jurisdictions will have similar requirements. The Committee believes that such consistency opinions are important but they must be clear to the reader – our research suggested that there was sometimes confusion over what parts of the annual report were covered by the audit opinion and the level of assurance. There should be a requirement for clarity for any additions to the

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opinion.

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The Committee also felt that the position of the audit report could make it difficult for an uninformed reader to find if they did not know where to look. The position of the audit report is critical because it is placed immediately before the financial statements on which the audit opinion is given. The Committee felt it was not appropriate to change this. Instead, the Committee felt that the Chairman's statement or similar, which is generally prominently placed towards the beginning of the annual report, should contain a reference to the audit opinion with an explanation if the opinion is qualified.

Question Three
Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information – management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g. an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g. a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

Response
The Committee's research concluded that there was an appetite amongst investment professionals for more company-specific information. The auditor-client relationship is such that the auditor is privy to confidential and sensitive information about their client – information which investors will always desire to know. It is the firm belief of the Committee that the audit report should not be compensating for the deficiencies of information provided by management. The audit report is not the place for detailed company information.

The Committee felt that there was an issue with the annual report itself and the quality of information provided in this document. The Committee proposed that a clear analysis of the key risks facing the business and the main sources of assurance for management over these risks would be a valuable addition to the annual report. This could be in the form of a simple table listing the key risks and demonstrating the various sources of assurance – e.g. internal audit, external audit, IT application controls, etc. The audit opinion could then contain a reference to this table stating that the auditors do not disagree with this analysis.

The Committee believes that auditor communications and corporate reporting need to be able to evolve over time to suit the differing needs of the users. A current example is the recent focus on sustainability reporting and the assurance auditors will be able to provide over such reporting. The audit report must be flexible enough to cope with such changing demands and this provides another argument for simplifying the opinion and the report.

We as a Committee suggest that it is necessary to align any debate on the future of the audit report with a debate on corporate reporting more widely.

Question Four
If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g. instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance?

Response
The Committee believes that the auditor's responsibility remains to provide an opinion on the truth and fairness of the financial statements. Management are responsible for providing information to potential investors and the auditor's responsibility extends only as far as ensuring that management do not mislead users of the annual report by publishing information that is inconsistent with the audited financial statements. The report to those charged with governance under ISA 260 remains the most appropriate forum to report on audit findings.

The UK companies legislation makes provision for shareholders to question the auditors at the Annual General Meeting. The Committee believes that informal communication between the shareholders and the auditors is the most appropriate forum for the provision of additional information. The purpose of the audit report should be solely to report the audit opinion.

I hope our comments are useful to you. If you wish to discuss any of them please do not hesitate to contact me.

Yours sincerely

KAREN SHAW
Assistant Director, Accounting and Auditing
Secretary to the Audit and Assurance Committee

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INSTITUTO DE
CENSORES JURADOS
DE CUENTAS DE ESPAÑA

Presidente

Mr. Greg Tanzer
Secretary General
IOSCO General Secretariat
Calle Oquendo 12
28006 Madrid
Spain

auditorcommunications@iosco.org

15 January 2010

Re: IOSCO CONSULTATION: Auditor Communications

Dear Sir,

The ICJCE welcomes the opportunity that IOSCO is giving to the profession to comment on the Consultation "Auditor Communications".

The ICJCE is an organization that groups professionals authorized to carry out statutory audit in Spain. In December 2009 our membership was comprised of 5509 individuals and 590 audit firms. These numbers represented more than the 80 % of the total turnover in audit services in Spain in 2008.

In general terms, the ICJCE is of the opinion that a standard audit report as it is defined in ISA 700 "Forming an Opinion and Reporting on Financial Statements" applied internationally is useful for investors as it increases confidence and comparability of financial information audited under the same high quality standards, please find below our particular comments to the questions in the consultation paper.

Should you have any question or if you wish to comment on our answers, please do not hesitate to contact me at presidencia@icjce.es or our International department Director at internacional@icjce.es, we will be very pleased to provide you with any further explanation.

Yours sincerely

Rafael Cámara Rodríguez-Valenzuela

General Arrando, 9. 28010 MADRID (España) • Teléf. + 34 (91) 446 03 54 • Fax: + 34 (91) 447 11 62

Question 1. Is the standard audit report useful to investors? If not, why?

The ICJCE is of the opinion that a standard audit report as it is defined in ISA 700 "Forming an Opinion and Reporting on Financial Statements" applied internationally is useful for investors as it increases confidence and comparability of financial information audited under the same high quality standards.

The audit report on annual financial statements expresses an opinion of the auditor, based on the work carried out, on historical financial information which has been prepared in accordance with the applicable financial framework. This opinion is designed to facilitate comparability and, in this sense, we consider that is useful for investors.

The question is if the information that companies provides to the market is useful for the investors. We understand that investors' decisions are based on their expectations for the future, while this is not the objective of the historical financial information - so this lack of information cannot be compensated by the auditors' report. On the other hand an opinion on forecasts might be excessively costly, and not useful because of the inherent limitations of an assurance engagement of that nature. Finally the auditor's liability in the event of the company's failure to meet forecasts should also be considered.

The IOSCO Consultation Paper mentions the possibility that the auditor provides information, which is not included in the financial statements. We also believe that this would be a mayor change in the relationship between investors and other stakeholders, management, those charged with governance and the auditor. It is the auditor's role is to evaluate whether information given is correct in the circumstances, not to facilitate his own and we agree with IOSCO that this function should remain unchanged, unless a complete change in the profession is envisaged.

Regarding the potential expectation gap due to the failure of the audit report to *reflect the level of effort and judgment inherent in an audit, thereby exacerbating the expectations gap,* we consider that, the auditors' report is not the right place to include such information, which is already available by other means. As stated in our answer to the IOSCO consultation on transparency of audit firms, the 8CLD, which will be shortly transposed into the Spanish Law, already includes provisions on the information to be disclosed by the firms auditing PIEs[1] and on Quality assurance systems that we consider appropriate to address this issue.

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[1] [1] Art 40 of the 8th Company Law Directive (Directive 2006/43/EC)

1. Member States shall ensure that statutory auditors and audit firms that carry out statutory audit(s) of public-interest entities publish on their websites, within three months of the end of each financial year, annual transparency reports that include at least the following:

(a) a description of the legal structure and ownership;
(b) where the audit firm belongs to a network, a description of the network and the legal and structural arrangements in the network;
(c) a description of the governance structure of the audit firm; (d) a description of the internal quality control system of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;
(e) an indication of when the last quality assurance review referred to in Article 29 took place;
(f) a list of public-interest entities for which the audit firm has carried out statutory audits during the preceding financial year;
(g) a statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
(h) a statement on the policy followed by the audit firm concerning the continuing education of statutory auditors referred to in Article 13;
(i) financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services;

Question 2. Would investors prefer a more concise audit report (*e.g.*, a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

In Spain audit reports are considered by Law as mercantile documents that take effect before third parties. Therefore an audit report with no reference to the scope of the audit and to the liability of the auditor is inconceivable.

Nevertheless as a public interest profession we have to assume that there are some points of criticism that should be addressed. In this sense we support the work that IAASB is developing to analyze the usefulness of the audit report and we recommend waiting until the end of this project to comment on the results and explore future ways of improvement.

Question 3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (*e.g.*, an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (*e.g.*, a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

Every party in the financial information chain has its own responsibility regarding the information provided to the users of this information.

Also, every party has different information needs which cannot be all of them addressed in the audit report or other auditor communications, at least not in a cost efficient manner. For instance, investors need frequent financial information which should be provided by the company under its responsibility but it would be impractical to have it audited. The auditor should, under the 8CLD and finally the Spanish law (not yet transposed), inform the audit committee about the internal control of the company and other issues related to the audit. This information about audit risks and internal controls might also be useful for others than the audit committee and it is readily available but the level of information that the company provides to its investors and shareholders is its own decision, unless otherwise established by law.

Additional information should therefore be facilitated by the company and it is the market and the regulators who need to decide on the convenient level of information and whether the benefits of an audit of this information compensate the costs.

(j) information concerning the basis for the partners' remuneration.

Question 4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (*e.g.*, instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

As stated above, other information than that provided by the auditor in the audit report is an issue that could be further explored always taking into account the following facts:

- Cost /Benefit of the information
- Responsibility of such information
- Degree of subjectivity of the information

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January 15, 2010

Mr Greg Tanzer
Secretary General
IOSCO General Secretariat
Calle Oquendo 12
28006 Madrid
Spain

By Email: AuditorCommunications@iosco.org

Dear Mr Tanzer

Re.: Public Comment on the Auditor Communications: Consultation Report

The Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany] is pleased to have the opportunity to comment on the above-mentioned consultation report. We support IOSCO's initiative in preparing the above-mentioned international consultation report because we believe the responses will be helpful to standard setters as they seek to address the issue of auditor communication to the various interested parties. We commend IOSCO on the preparation of the consultation report, which appears well researched and includes citations from a wide variety of sources. The discussions of the advantages and disadvantages of various suggestions are generally well-rounded. However, we were disappointed to note that there is no reference to certain papers issued by the Fédération des Experts Comptables Européens (FEE), parts of which are highly relevant to many of the issues addressed in the consultation report. In particular, we would like to draw attention to the FEE Issues Paper "Principles of Assurance" published in 2003 and the FEE Paper "Selected Issues Relating to Financial Statement Audits" published in 2007 (available from the FEE website free of charge).

This letter includes certain comments of a general nature, which we believe are significant in the context of the current debate on auditor communications. Our responses to the questions posed in the consultation report are included in the Appendix to this letter.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB CPA;
Manfred Hamannt, RA

General Comments

The Desirability of Action Currently

We accept that there may be room for improvement in auditor communications in general. However, as we point out in more detail below, certain changes have been made to auditors' reports pursuant to ISAs 700, 705 and 706 during the recently completed IAASB Clarity Project. These Standards have yet to come into force and the new reporting yet to be evaluated by users. As also mentioned in the consultation report, the IAASB has itself commenced a number of initiatives, including a project to research auditor reporting. Although we are therefore supportive of IOSCO's initiative, we do not believe any decisions as to changes to auditors' reports at an international level would be appropriate in the near future. Rather, as mentioned below, there is a need to consider this issue further and also to await the outcome of the aforementioned IAASB project. In any case, we believe it is essential that the auditor's report remains concise and provides a cogent view of the auditor's responsibilities without changing the auditor's overall responsibilities. Changes to an auditor's responsibilities are not issues that can be resolved solely by addressing audit reporting, but reflect wider issues of the costs and benefits of the audit function in society.

The Need to Consider the Balanced Views and Informational Needs of All Interested Parties in Respect of Auditor Communication

The issue of auditor communication is an international issue affecting all entities that are subject to audit. Many parties including regulators, management of the entity, those charged with governance, such as audit committees, external parties including creditors, other providers of funding and other investors as well as auditors have an interest in this issue. The various views and informational needs of all concerned will need to be taken into account in improving auditor communication in its broader sense in the long term.

We appreciate that, with this initiative, IOSCO is primarily seeking to involve investors in public interest entities in the debate on auditor communication, given their role as "users" of auditor's reports. However, our concerns as to this approach are threefold.

First, we are concerned that, notwithstanding the fact that an international organization such as IOSCO has issued this consultation report to the international public, there is a distinct danger that responses received will not represent the balanced views of all interested parties internationally, but may reflect the "shopping list" of some. Various parties, including management of the entity, those charged with governance, such as audit committees, as well as external parties including creditors, other providers of funding, including banks and investors derive benefit from having reliable financial information, the latter relying on this as a basis for their individual investment decisions. Therefore, auditor communications which include, but are generally not necessarily limited to, the standard auditor's report, serve to lend comfort as to the reliability of the financial information they accompany. Indeed, the consultation report reveals some inconsistency in issuers' views. On the one hand, there are concerns in certain quarters as to the perceived complexity of the current wording ("boilerplate and technical language") of auditor's reports. On the other hand, a number of the suggestions made, and in particular those calling for more detailed information as to the individual audits ("level of effort and judgment in an audit"), would most likely lead to an increase in the complexity of reporting and also a marked decrease in harmonization, which could prevent users fully appreciating the information conveyed.

Second, we are not convinced that discussing the views put forward by only selected panelists at the IOSCO Roundtable on page 1 is an appropriate way to lead the process for developing this consultation report. It reveals that this issue is at a very early stage of discussion and that no form of consensus between like parties has been achieved so far.

Third, calls for different information than that currently provided in an auditor's report need to be given thorough consideration as they may affect the scope of the audit itself. We discuss this aspect in more detail below. The consultation focuses on public interest entities, rather than all entities that are subject to audit. In this context, we would not support calls for changes to auditor communications for only certain types of entity if they were to cause a move from the premise "an audit is an audit", as this would essentially create first and second class audits, which we believe is not in the public interest.

For these reasons, while we believe the IOSCO consultation is likely to provide a significant contribution to the ongoing debate, it can only serve to provide selected input to the further development of regulation and standard setting pertaining to auditor communications in a broader context.

Auditor Communication Needs to be Addressed at an International Level

In our opinion, the International Auditing and Assurance Standards Board (IAASB) is the appropriate body to consider potential changes to auditor communications at an international level.

The recently clarified set of ISAs already deals with direct auditor communication to regulatory and enforcement authorities (ISA 250), with those charged with governance of the entity (ISAs 260 and 265), as well as with external reporting (ISAs 700, 705 and 706). We sincerely hope that IOSCO will channel the responses it receives to this consultation report into the IAASB's future discussions and development of standards in this area.

Many of the thoughts repeated in the consultation report stem from discussions and debates over a long period of time, for example the Cohen Commission Report dates back as far as 1978. The length of time together with the fact that many suggestions have not subsequently found sufficient favor to have influenced subsequent standard setting indicates that consensus on audit reporting is far from having been achieved and that further research is likely to be needed.

Potential Impact of Changing Audit Report Wording

Auditing standards, together with national laws and regulations, define the responsibilities of auditors and also govern how audits are to be performed. The IAASB's International Auditing Standards (ISA) contain specific requirements, together with application guidance thereon, to which an auditor adheres in performing his or her audit work, such that the audit report is an expression of the audit so performed. Therefore, with the exception of those of a purely cosmetic nature, all changes to the wording of the report potentially impact the underlying audit work that would need to be performed.

Changes to the scope, nature and extent of the work to be performed in an audit have cost consequences, each of which would need to be considered on a case by case basis and the cost-benefit relationship examined in making any decision.

In particular, calls to improve reporting of the auditor's role in detecting fraud have widespread implications. The current wording of ISA 700 in this respect does clarify that "…the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error". Thus it is clear that given the audit is aimed at expressing an opinion on whether the financial statements are free of material misstatement, audit procedures are not primarily aimed at distinguishing whether such misstatement resulted from fraud or error, even if such potential distinctions have an impact on the audit work performed. ISA 240 governs the procedures addressed at the potential for fraud in financial reporting. Increasing the emphasis on fraud in auditor communications beyond this would ultimately lead to significant changes in the current audit model and significant increases in costs of audit and in auditor liability, or impact the expectations gap further.

The Need to Educate Investors about Auditing and Increase International Comparability Amongst Capital Markets

In our opinion there is a distinct and increasing need to educate capital market participants and others about a number of specific aspects of auditing.

We agree fully with the penultimate sentence in section VI of the consultation report commenting on a number of solutions that have been proposed. We caution that many suggestions for improvement to auditor reporting seem to represent a "shopping list" of desired information rather than constituting technically constructive suggestions as to what information auditors can supply. *"Each of these solutions warrants careful consideration taking into account the information needs of investors, the role of auditors and their audit reports and the challenges that might preclude modifications thereto."* It is important not to create unrealistic expectations on the part of investors as to changes in auditing and audit reporting.

In studying the consultation report, it became increasingly apparent to us that certain parties might lack a sound knowledge of auditing or of the current global auditing environment. We point out in section 4.4 of this letter below some examples of the suggestions put forward to "improve" auditor reporting which would, if implemented, have a significant impact on the audit – a fact which did not appear to have been fully recognized by those putting forward such suggestions. This is an issue, since unless users are in a position to better appreciate and interpret the communications made to them by the auditor, there would be no satisfactory basis to debate solutions to perceived shortcomings in current auditor communications. Consequently, it seems to be too early to attempt to solve this problem by making concrete proposals for changing the ways auditors report on the audit. In fact, changes, including additions, carry the danger that they may be counterproductive if they serve to increase rather than minimize the expectations gap.

In this context, we also believe that, to some extent, calls for more information on audit work that has been performed could be satisfied if the scope of audit work required under the applicable auditing standards were more widely understood. Similarly, in our opinion, some of the calls for information aimed at

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facilitating users to make their own assessment of audit quality might be answered if there were more harmonization of auditing standards and auditor oversight regimes, as investors with knowledge of a particular set of auditing standards who also had confidence in the oversight of auditors would not perceive the same need to “check” audit quality for themselves.

This, we believe, speaks for the further internationalization of procedures, introduction of the ISAs and cooperation between oversight authorities in the longer term.

The IAASB has recently started certain initiatives to help educate interested parties as to the ISAs, for example, with a range of ISA modules designed to provide an overview of certain individual standards.

In our view, this is a key aspect that needs considerable further consideration by many internationally active parties.

We would like to stress that in formulating our responses to certain questions posed in the consultation report we do not purport to provide investors' perspectives, as the IDW represents its members who are German public auditors. However, we trust that our comments will be helpful to IOSCO in its further consideration of this issue.

Yours sincerely

Klaus-Peter Feld	Wolfgang P. Böhm
Executive Director	Director, International Affairs

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APPENDIX

Responses to Questions Posed in the Consultation Report

1. Is the standard audit report useful to investors? If not, why?

1.1 We believe that the "basic message" in the standard auditor's report is indeed perceived as useful. Our view is supported by the first two "key messages" noted in the Agenda Paper 4A for the recent IAASB meeting referred to above, which indicate that users value auditors' reports, and also that the value of the unqualified audit report is mainly symbolic.

1.2 Users of standard auditors' reports do not form a homogenous group. Indeed, it is questionable whether users, including investors, will find any standard audit report, however detailed or precise, entirely useful in terms of their individual needs. We are therefore somewhat concerned that IOSCO has limited its questions such that the discussion focuses on the <u>standard audit report</u> and its usefulness to <u>investors</u> alone. Focusing the discussion in this way is counterproductive in that it may create unrealistic expectations on the part of investors. The problem is exacerbated by the persistent expectations gap surrounding the scope and purpose of an audit of financial statements and the auditor's role and responsibilities in that regard. This gap has a further impact on investors' perceptions of what audit reports should or could contain. Unless and until this gap can be diminished by educational means, irrespective of what changes may be made to auditors' reports, it is illusionary to believe that it would be possible to meet the differing expectations of investors using a standardized audit report.

1.3 To address the diversity of investors and their desired information the IAASB found it necessary to "define" users for the purpose of an auditor's consideration of materiality pursuant to ISA 320.4:

> "The auditor's determination of materiality is a matter of professional judgment, and is affected by the <u>auditor's perception</u> of the financial information needs of users of the financial statements. In this context, it is <u>reasonable for the auditor to assume</u> that users:
>
> (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
>
> (b) Understand that financial statements are prepared, presented and audited to levels of

> materiality;
> (c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
> (d) Make reasonable economic decisions on the basis of the information in the financial statements."

In our opinion, a similarly pragmatic approach would be appropriate in relation to the content of auditors' reports.

2. Would investors prefer a more concise audit report (e.g., a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?

2.1 As we do not represent investors we cannot comment on individual investor preferences. However, we note that the consultation report reveals considerable inconsistency in issuers' views. On the one hand, there are concerns in certain quarters as to the perceived complexity of the current wording ("boilerplate and technical language") of auditor's reports. On the other hand, a number of the suggestions made, and in particular those calling for more detailed information as to the individual audits ("level of effort and judgment in an audit"), would most likely lead to an increase in the complexity of reporting and also a marked decrease in harmonization, which could prevent users fully appreciating the information conveyed.

2.2 As we have mentioned above, it is also clear from many of the remarks quoted from the various discussions mentioned in the consultation report that the current international audit model is not widely understood at a technical level by all interested parties involved in such discussion hitherto. As a result, we caution that many suggestions for improvement to auditor reporting seem to represent a "shopping list" of desired information rather than constituting technically constructive suggestions as to what information auditors can or ought to supply. We therefore agree fully with the penultimate sentence in section VI of the consultation report commenting on a number of solutions that have been proposed: *"Each of these solutions warrants careful consideration taking into account the information needs of investors, the role of auditors and their audit reports and the challenges that might preclude modifications thereto."* It is important not to create unrealistic expectations on the part of investors as to changes in auditing and audit reporting.

3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g., an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g., a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

3.1 The consultation report notes that recent improvements have been made by the IAASB to auditor reporting at an international level in 2004. In addition, as the IAASB's Clarity Project has been recently completed, there will be a number of further changes to the standard form of the auditor's report. For example, recent changes to ISA 700 will aid comparability across borders by harmonizing the wording of auditors' reports and clearly distinguishing national aspects covered in those reports. We would like to draw IOSCO's attention to a recent Study performed by the University of Duisburg-Essen commissioned by the Internal Market Directorate General of the European Commission, which concluded that in relation to the possible adoption of the International Standards on Auditing within the European Union the main benefit would be derived from the so-called harmonization effect.

Both ISA 705 and ISA 706 dealing with modifications to the auditor's opinion and emphasis of matters and other matters paragraphs, respectively have also been revised during the Clarity Project. In our opinion, these also ought to be viewed as recent improvements and ought to have been mentioned in the consultation report – investors will be especially interested in learning why an unmodified opinion is not given (ISA 705) and also about a matter that, irrespective of whether it is appropriately presented or disclosed in the financial statements or not, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements (ISA 706). As the consultation's discussion of auditors' reports concentrates on the content of the unmodified auditor's report, these matters are not discussed in detail, but are equally relevant to such a discussion, if not more so. Until these new ISAs come into effect it will not have been possible to assess the impact of these changes.

3.2 We agree with the following statements on page 13

- *"Some information gaps should be filled through disclosure by issuers rather than auditors, particularly as management has the best understanding of its business. In other words, the audit report should not be used as a mechanism to deal with shortcomings in the information disclosed by companies to their investors"*
- *"Other information gaps, such as those that relate to the key matters discussed by those charged with governance and the auditor, may be better filled through disclosure by those charged with governance."*

Information about an entity should be provided to investors by management - not by the auditor. The annual financial statements are the primary source of information about the entity. Information about an entity is usually available from a wide variety of sources, including press releases / articles about the entity, analysts' briefings, reports on prospective information, reports detailing confidential information by the auditor to management and those charged with governance. Auditor communications do not cover all such information, but are restricted to only a distinct part of this information. Auditors' reports are concerned only with information in the financial statements. Calls for additional information from auditors above and beyond this would be misplaced. It is not the auditor's role to supply more detailed information about the entity subject to audit.

3.3 Furthermore, the statement on page 20: "*With more transparent information available for investors to assess the quality of the audit that was performed, a greater market incentive may exist for firms to perform high quality audits."* is, in our opinion, highly questionable. First, the purpose of auditor communication to investors is not to facilitate their making their own individual assessments of the quality of the audit performed. Second, as we point out in our letter on the consultation report on Transparency of Firms that Audit Public Companies, we do not agree that this proposed transparency will provide such an incentive.

3.4 In general, we believe that were the reporting to be expanded as discussed on page 20 et seq., all but the most sophisticated investors are unlikely to be able to weigh different aspects or issues against one-another in terms of relevance and significance. Indeed, there is a danger that additional information will result in information overload and thus not benefit the users of audit reports.

3.5 We have a number of concerns about including specific additional communications in the standard audit report, as follows:

- Changes along the lines discussed on page 18 of the consultation report are problematical. For example, the purpose of auditor reporting to those charged with governance and to investors differs considerably in Germany. In our opinion, combining the two as goals of a "one-for-all report" would lead to ineffectiveness, for the reasons explained on page 21 *"…these communications were not designed to facilitate investment decision-making but rather to help those charged with governance discharge their oversight responsibilities. A requirement to publicly disclose these communications could lead to a less robust and open dialogue between the auditor and those charged with governance, thereby impeding each from fulfilling their respective responsibilities. Furthermore, an auditor may be unable to meet a requirement for added disclosure without providing client-specific privileged and confidential information.".*
- The concept of describing major elements of the entity-specific audit and giving each a positive or negative comment as discussed on page 20 of the consultation report would need careful consideration from a cost-benefit perspective. The exact scope of information, even with guidelines or requirements, would be necessarily subjective, both for auditors and users and would, in our opinion, potentially be less helpful than hoped for, as it would be subject to incorrect interpretation and certainly also have liability implications for auditors.
- On page 21 et seq. there is a suggestion to change the nature of assurance provided by the auditor. In this context, we would like to refer to the FEE Issues Paper "Principles of Assurance" published in 2003. Requiring the auditor to either follow different attestation standards (idea raised in the Assembly Report from 2004), or obtain different levels of assurance on different parts of the financial statements (idea developed by PCAOB SAG discussion) would represent a major change in the current audit approach taken in most jurisdictions around the world, whereby the auditor expresses an opinion on the financial statements as a whole, which implies the aggregation of assurance, the results of which auditors seek to address in part by means of performance materiality (see ISA 320). We do not believe that such an approach (i.e., a piecemeal opinion) would be beneficial to users, since few items reported in financial statements are likely to be similar in nature in this context and they also would likely vary with the individual circumstances of an entity and from period to period (to illustrate this point: the level of assurance that is theoretically obtainable on doubtful debts will vary depending on, among other things, the business and financial

circumstances of the entity subject to audit as well as the general financial environment at the point in time). We also strongly doubt the usefulness to investors of detailed information on specific financial statement items, as the whole concept of financial statements is to provide a “picture of“ or “information on” the underlying “financial position” of an entity, and for the entity taken as a whole, not its constituent parts. Looking at individual aspects in isolation would automatically distract from this goal and most financial reporting frameworks were not designed to serve other goals. We therefore agree fully with page 24 of the consultation report: “*Before such a model is accepted, careful study would need to be conducted to ensure it is in the best interests of investors*“.

4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g., instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

4.1 A significant number of suggestions go beyond the scope of changes to auditors’ reports alone, but show a need for wider-spread further consideration not restricted to auditor reporting or even to the audit model, e.g., the discussion on page 14 relates to the scope covered by the audit itself; page 9 (filing requirements effectively result in few modified opinions – regulator issue); page 8 (auditors do not attend shareholder meeting or do not speak openly at them – legal requirements at jurisdiction level). Some requests relate not to auditing matters but to financial reporting matters, as the information called for often is not an auditor-specific issue (e.g., the inherent uncertainty in certain management assessments must be conveyed in the financial statements and pursuant to ISA 706 an auditor may draw attention to this in an emphasis of matters paragraph). Not all investors seem to be fully aware of this.

4.2 We agree with the following statements:

- *“In considering the information that issuers publicly disclose, it is also important to recognize that the information that is actually filed with securities regulators sometimes differs from the information that is* *required to be filed...... This type of an information gap may not require reconsideration of periodic reporting requirements or changes to the standard audit report, but may require more focused attention by issuers, auditors and securities regulators on compliance." (Page 13)*

- *"Given these legal realities, auditors might feel compelled to perform additional procedures to minimize the associated risks. Additionally, certain changes to the standard audit report could fundamentally affect the nature of an audit, thereby necessitating incremental or different audit procedures. Such procedures could increase audit costs and present challenges for completing audits in a timely manner. Further, changes to the audit report that require more subjective descriptions may lead to inconsistencies in auditor reporting, both within individual jurisdictions and across jurisdictions. Such inconsistencies might be complicated for jurisdictions in which joint audits are performed and jurisdictions in which group auditors assume responsibility for the work of component auditors. Lastly, certain additional communications within the audit report, such as those that would result in changes to the binary reporting model, may make it more difficult for investors to understand whether the financial statements achieve fair presentation."(Page 15)*

4.3 We urge caution in relation to suggestions that would make public information intended for parties other than investors, as the roles and consequently information needs of such parties differ widely from that of an investor. For example, the proposal on page 14 that auditor communications with those charged with governance should be published is, in our opinion, unlikely to be appropriate; certainly not in the level of detail required by the relevant ISAs dealing with such communications.

4.4 Auditor liability implications also need to be taken into account. These will vary between jurisdictions. In our view, the idea that „Additional communications could result in more transparency as to the auditor's views about the qualitative aspects of the issuer's significant accounting practices and policies, thereby providing investors with an independent perspective on such matters" (page 20) is controversial from a liability aspect. It is unclear how investors would use this information.

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15 January 2010

Dear Sir

IOSCO Consultation Report – Auditor Communications

KPMG International Cooperative[1] (KPMG International) is pleased to respond to IOSCO's consultation on Auditor Communications: Consultation Report issued in September 2009. This response is submitted on behalf of the international network of KPMG member firms.

We agree with IOSCO that consideration as to whether the standard audit report communicates the appropriate information to investors and whether its form and content facilitate audit quality are important areas that merit further consideration. The consultation also sets out clearly many of the issues involved and does not seek to minimize the challenges that will need to be addressed in arriving at solutions that meet the needs of users.

Our comments on the questions posed in Part VII – Request for Consultation are set out below.

1. *Is the standard audit report useful to investors? If not, why?*

2. *Would investors prefer a more concise audit report (e.g., a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?*

We believe that questions 1 and 2 are important questions that need to be posed in order to fully assess whether the current standard audit report is useful to investors.

[1] KPMG is a global network of professional services firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organisations. KPMG International is a Swiss cooperative, a legal entity formed under Swiss law, with which all the member firms of the KPMG network are affiliated. KPMG International does not provide professional services to clients; audits of public companies together with other services are all provided by member firms.

As acknowledged in the Consultation Paper, the changes introduced by the International Auditing and Assurance Standards Board (IAASB) to the standard audit report in 2004 and again in 2009 as part of the Clarity project were intended to provide a more robust description of the respective responsibilities of management and the auditor, to update the description of the audit process and to clarify the scope of the auditor's responsibilities including those related to internal control. These were seen as necessary changes since there was concern that the auditor's role and responsibilities in relation to that of management's generally were not well understood.

Further, the IAASB introduced a two-part structure to the report which includes the report on the audit of the financial statements as part one and other reporting responsibilities, as applicable (*e.g.*, when national laws or regulations impose additional responsibilities on auditors beyond International Standards on Auditing) as part two. This is an important feature of the report since it increases consistency in reporting between jurisdictions while at the same time providing the flexibility to accommodate national requirements.

While we see the revisions introduced by IAASB as important clarifications and improvements, we recognize that the basic principles underlying the form and content of the standard audit report (i.e., description of scope, responsibilities and opinion) have not changed for many years and may need to be updated in order to reflect changes to investor and other user needs.

We therefore agree that questions 1 and 2 are important questions that need to be posed in order to fully assess whether the current standard audit report is useful to investors and whether it needs to evolve. It also is important that views are obtained from as wide a range of investors, i.e., investors with varying levels of sophistication and understanding of financial reporting, in as many jurisdictions as possible.

Further, while we acknowledge that investors are important users of financial statements and of the audit report, it also is necessary to recognize that they are not the only users. We understand why IOSCO has chosen to focus on investors, in view of its mandate; however, we believe that it would be useful to obtain the views of other users to determine whether there are different perspectives and needs. To this end, we understand that a considerable amount of research on user perceptions of the audit report has been sponsored by IAASB and a number of national standards setters. We therefore encourage IOSCO to share the results of this consultation with these bodies and to work closely with IAASB to help ensure that the end result is a globally consistent approach to auditor communications.

3. ***Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g., an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit)***

and what form should it take (e.g., a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?

We welcome a debate on whether/how communications to investors/users should be expanded to give users further insights on matters relating to the quality of financial reporting and the role of the auditor. However, the question of who should be providing these insights also touches on corporate governance issues that are relevant to the responsibilities of management and those charged with governance, as well as the role of the auditor. Accordingly, in order to address the questions of whether investors and other users are receiving sufficient, appropriate information about the audit and the financial statements and, if not, who should be providing this information, it will be important to understand how a modified auditor communication that addresses more detailed findings might affect both the role of management and the role of those charged with governance.

We therefore strongly encourage IOSCO to work closely with IAASB and other relevant bodies to develop an understanding of:

- The types of additional information investors and other users would like to obtain;
- The purpose of requesting this information (e.g., how it is intended to be used, how relevant this type of information is to the investor-decision making process and the objectives of other users); and
- How the reporting responsibilities of management, those charged with governance and the auditor might change to provide the insights sought by users.

In the event it is determined that the auditor's report should be expanded to provide more information, it would be useful to determine whether it is possible to address the needs of multiple users by separating the opinion on the financial statements from any other information that the auditor may be required to provide in the report. This type of structure would facilitate both a standardized, concise opinion on the financial statements and accommodate a longer more discursive report setting out auditor observations and views to satisfy the needs of other users. As noted above, the two-part auditors' report approved by the IAASB already accommodates this type of structure. Further, auditors in some jurisdictions, e.g., France, already have developed expanded auditor reporting responsibilities. We therefore recommend that any further study in this area includes an assessment of the types of reports issued by auditors in these jurisdictions, the additional time and costs involved in issuing such reports and how the information in these reports is used by investors and other users.

4. ***If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for***

investors to receive this information without encountering these challenges (e.g., instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)?

We fully support exploring the types of information users may require from auditors, however as already mentioned above, it is important that any potential changes be assessed in relation to the corporate governance model that exists today and how the role of the auditor is intended to interact with that of management and those charged with governance. It will be important to understand why investors believe that it is necessary for auditors to provide additional information about the company and why they believe that they are not able to obtain this type of information from management. Prior to effecting any change, it also would be in the best interest of all parties for a full cost/benefit analysis to be undertaken of additional reporting requirements.

Further, as noted in the consultation paper, the current standard audit report is designed to clearly explain the role of the auditor and how this differs from management's role. A more concise audit report and opinion on the financial statements may mean that these explanations will no longer be provided in the report. This, coupled with the possible inclusion of additional auditor commentary on the quality of financial information in the report may lead to confusion on the part of users as to the differences between the role of the auditor and that of management. Accordingly, it is important that any exploration of changes to the report includes full consideration of how information on the respective roles of management and auditors will be made available to users in order to avoid creating any confusion.

It also will be necessary to fully assess the legal, regulatory and professional standards implications of any changes to auditor communications. For example, auditors may be restricted by laws or regulation relating to client confidentiality, professional secrecy or professional privilege from communicating certain information concerning their clients to third parties. Auditors will also need to carefully consider the potential impact of any such changes on legal liability.

We would be pleased to discuss the matters raised in this letter. Please contact Rod Devlin, Head of KPMG International Standards Group, at +33 1 55687020 if you wish to discuss any of the issues raised in this letter.

Yours sincerely,

KPMG International

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15th January 2010

AuditorCommunications@iosco.org

Dear Sir,

Public Comment on the 'Auditor Communications: Consultation Report'

The Nordic Federation of Public Accountants (NRF) appriciates the opportunity to comment on this consultation document from the Technical Committee of the International Organisation of Securities Commissions (IOSCO) on Auditor Communications. NRF refers to, and is responding on behalf of, the recognised accounting bodies in the Nordic region (Denmark, Finland, Iceland, Norway and Sweden). Each accounting body in the region is autonomous and consequently may also chose to respond individually to IOSCO's Consultation Report. The views expressed in this letter do not in any way commit or restrict the positions of any individual member bodies of NRF. However, the views expressed in this letter have been reviewed by NRF's member bodies and are generally consistent with the views of these member bodies, each of which is a separate legal entity.

As an organisation NRF is committed to promoting the consistent application of high quality audit and accounting practices in the Nordic region as well as worldwide in the public interest and welcomes reasonable initiatives designed to advance these objectives and to encourage greater participation by more recognised accountants and accounting firms in the public company audit market.

NRF has not responded to each of the questions in the consultation document as some of these are directed specifically at investors. However, some overall observations are made in the following which address some of the matters raised in Questions 1-4.

Four key aspects have been addressed that NRF believes to be particular significance:

- The audit report is an integral element of the whole corporate reporting process and should be viewed and debated in that light.
- In the short term, to aid comparability and understanding for users, NRF's view is that countries should adopt the current ISA 700 standard for audit reporting to the extentpermitted by law or regulation.
- There are a number of research and other initiatives currently under way in the area of audit reporting – the results of which will help inform the current and future debate.
- A dialogue should be initiated, involving all stakeholders, around potential medium and longer term enhancements to the corporate reporting model, including the audit report. That debate should also embrace a discussion of potential barriers to improvements to the corporate reporting and audit models.

The corporate reporting and audit models

The audit report is an integrated part of the corporate reporting model and therefore part of what is often referred to as the 'corporate reporting supply chain'. Publically available financial and other corporate reporting information is the end-product of a process that involves management, those charged with governance, standard setters, auditors and regulators and other enforcement agencies. The different steps and different participators in the chain are connected. Therefore, the quality of financial information is dependent on the quality of the inputs to the whole supply chain, including the relevant standards and regulations that apply, at each stage of the chain. The way companies are organised in different jurisdictions and the differing corporate governance regimes in place are also important factors.

The current model (and the resultant audit report) involves an iterative process of debate - and frequently challenge - between management, those charged with governance (typically the audit committee) and the external auditors. This is done in order to address potential areas of concern with the financial statements before they are finally approved by management and before the auditors provide their opinion on the financial statements. consequently the ultimate published audit report may appear relatively nondescript, with a "binary" opinion, because market and professional practices have evolved to build quality into the process by which the financial statements are developed.

Investors often express different views on how the audit –report should evolve. Some would prefer a longer report that provides more information on the auditor's judgments. Others would prefer a shorter report so that the auditor's conclusion is more prominent. NRF believes that some of the concerns that investors raise with respect to the audit report are in fact concerns about the financial reporting process rather than the process surrounding the audit itself.

The audit report is based on national law, regulations, corporate governance, business behaviour and other features of market practice within which auditing and auditing standards have evolved. It is NRFs belief that the audit report has served the markets well for a period of many decades in the context of the market practices and conventions within which it is used. That is not to say that NRF would not welcome a review of the wider corporate reporting model, including the audit report. Any initiative to change substantially a particular element in the corporate reporting chain should however, not be viewed in isolation from the other elements. Changes should be based on an objective to have the different elements of the corporate reporting model based, so far as is possible, on high-quality globally recognised and accepted standards.

A global benchmark for audit reports

NRF recognises the importance of and need for a robust and globally accepted set of international auditing standards that are applied across the world's capital markets. The International Standards on Auditing (ISAs) as promulgated by the International Auditing and Assurance Standards Board (IAASB) are worthy of such recognition. The structure and robust due process of the IAASB, with the oversight of the Public Interest Oversight Board, clearly position it as the global standard setter and the ISAs as high quality audit standards in the public interest. NRF has noted that IOSCO has issued a statement in June 2009 IOSCO regarding the improvements resulting from the IAASB's project to clarify the ISA requirements. This statement encouraged securities regulators to accept audits performed and reported in accordance with clarified ISAs for cross-border offerings and listings.

The IOSCO consultation report provides, in Appendix 1, illustrative standard audit reports from selected major countries around the world. Even though the performance of an audit is usually the same, the presentation of the reports can vary for local historical, regulatory and other reasons.

ISA 700 *'Forming an Opinion and Reporting on Financial Statements'* in the Clarity redrafted version issued in April 2009, was developed following extensive due process. The standard was intentionally designed to accommodate variations that may exist in legal and regulatory reporting requirements in different jurisdictions that are beyond the opinion on the financial statements. (The ISA 700 format provides for a two-part audit report: the report on the financial statements and a report on additional legal and regulatory requirements.)

NRF recognises that there are good reasons why particular items are addressed in audit reports in different jurisdictions. However, given that there is a common acceptance of ISAs as the basis on which most audits are performed, it is unfortunate that the most visible public output of the audit process – the written audit report - appears to be significantly different. Audit reports on financial statements of listed and other public interest entities are today international and are read accross borders. Differences in the standard wording of auditors' reports may confuse readers and create uncertainty about differences that may or may not exist in the underlying audit.

NRF recognises that there are stakeholders who would like the content of auditors' reports to be revisited. The initiation of more thought leadership and debate in this area is welcomed. IAASB has also sponsored academic research to obtain information that will help further this debate. However, any practical output resulting from this debate is unlikely to materialise for several years. NRF therefore strongly suggests that an agreement by regulators and other stakeholders in countries around the world to adopt, to the maximum extentpermitted by law or regulation, the extant ISA 700 audit report would result in benefits to the capital markets in the form of greater consistency and clarity. This should not however, restrict all stakeholders from participating and contributing to the IAASB's global discussions on how auditors' reports could change in the future. IOSCO is well placed to give encouragement to efforts to adopt the standard internationally.

Research on views on audit reporting

Extensive academic research has been conducted on the topic of investors' and other users' perceptions about the standard audit report. The results have confirmed that there are mixed views regarding the usefulness of audit reports, including whether the current model could or should be improved and, if so, how best to do so.

In addition to this research, the IAASB has an extensive project on its agenda to consider commissioned research and other information to assess user perceptions regarding the standard auditor's report. There is also other research currently under way that examines aspects of audit reporting and auditor communications. Amongst these are:

- Work in Europe by the Fédération des Experts Comptables Européens (FEE) to look at the auditor's role in providing assurance on corporate governance matters; and
- IOSCO's consultation paper on Auditor Communications.

NRF suggests that time will be needed to consider how best to proceed, based on the results of all these initiatives. Recognising that IAASB is the international standard setter in this field, it would be helpful if the results of these studies, including this IOSCO consultation, form part of the considerations made by IAASB.

Some of the views highlighted in the recent research on auditor communications indicate a desire for more information regarding how the auditor has dealt with the risks related to the financial reporting supply chain, in particular:

- The auditor's judgment about the quality, not just the acceptability, of the issuer's accounting policies.
- The level of materiality applied in the audit and how this was derived.
- The difficult audit judgments that were brought to bear in an engagement.
- A more detailed explanation of terms such as ‘reasonable assurance’, ‘fair presentation’ and ‘material misstatements.’
- Circumstances or relationships that might bear on the auditor’s independence.
- Other matters of interest, such as the quality of internal controls.

NRF believes that it is important to consider and understand what each of the above is intended to achieve in order to determine the most useful means of providing that information. The disclosure of additional information in the audit report should be designed to add value and clarity to the quality of the audit process, Additional disclosures in the audit report may have the unintended consequence of increasing the auditor’s work effort and cost without benefitting audit quality. A distinction should be made between the information that users perceive they need to assess the quality of financial information in the financial statements and the information needed to assess the quality of the audit process itself.

NRF believes that a lack of information relating to the quality of the financial statements cannot be resolved by making all the communications between the auditor and the directors or audit committee publically available. The effect of that would be to limit those communications which would not be in the interests of good governance or of high-quality financial reporting. In fact, management may be in a better position to provide information to users in this respect. A section on management discussion and analysis on financial information in the annual report could include a discussion and analysis by the audit committee assuming that a suitable framework for this could be developed.

NRF also draws attention to the public avaliability of international auditing standards, as well as national regulations, to which each audit is subject.on the standard setter’s or regulator’s websites. Systems of external oversight and inspection of the audit profession have become more established and often information related to audit quality may be better sought from the published output of those systems. Audit firms are now making information available publically in transparency reports in many jurisdictions. This is now a requirement in the European Union for those audit firms which audit socalled public interest entities. Therefore, NRF is of the opinion that lengthening the standard auditor’s report is not necessarily the answer.

There is also a concern that users may in fact be seeking for a different type of audit report. This may require regulatory and audit standard changes which are likely to be more far reaching than making modifications to the auditor's report. This would most likely also impact on the financial reporting model as a whole and should be considered in this context.

A wider dialogue and debate

NRF supports a wide-ranging debate around the corporate reporting model, including the audit report. The recent global financial crisis have exposed shortcomings in the corporate reporting model. The model did not idemntify the systemic risk affecting financial institutions and the wider economy. However neither did most other participants, including regulatory agencies, involved in the policing of corporate reporting.

Determining the information that will be needed for the future to meet users’ needs is vital as is determining how a restructuring of the corporate reporting model would impact the audit and audit reporting. The growing complexity surrounding the determination and presentation of historical financial information results in a disproportionate amount of time being used by management and the auditor in dealing with technical reporting issues. In fact, more debate is also needed on how the auditor's skills and experience can best be used. More critical information might be non-financial in nature If so, the role of the auditor needs to be reassessed.

Another consideration is whether auditors can play a part in helping to monitor systemic risks. Could they contribute to the operation of new regulatory mechanisms, given their knowledge of global business and markets?

Answers to these questions will require a progressive debate of the issues over the next few years to see how the corporate reporting and audit models can enhance regulatory and user understanding of businesses' performance. Factors that should be considered include the most useful means of providing financial information by management and the costs and benefits of providing this information. The role of the auditor and how the results of the audit should be reported are an integral part of the debate. A furtherance of this debate would be in the public interest.

Such a debate should also consider the potential barriers to enhancements in corporate reporting and auditing. There are indications that there is -an insufficient fundamental understanding and experience of business complexities and risks in certain industry sectors such as banking. Perhaps this may lead to a consideration that those entrusted with the governance of complex industries need themselves to be better versed in the risks and complexities of the business and industry itself.

The audit profession is particularly influenced in the performance of its work by factors largely outside its control such as the corporate governance environment at companies (including the extent to which shareholders are active in holding management to account) and the regulatory environment. Issues such as leadership styles and organisational behaviour have not so far featured strongly in the way standards (of accounting, auditing, regulation, etc) have developed.

Other considerations, such as liability limitation, have to be taken into account if auditor and management reporting on certain issues such as key business risks, is to become more extensive. If corporate reporting is widened to include greater use of judgment and subjectivity than is currently the case then reporting on this is likely to expose the audit profession to more litigation.

NRF believes, in conclusion, that a further dialogue and debate is needed involving all stakeholders, including investors and others interested in corporate reporting and auditing. This Includes preparers, standard setters, the audit profession and regulators. IOSCO is encouraged to play a leading role in initiating a wide reaching dedbate, involving as many stakeholders as possible. NRF will be pleased to contribute further to this debate.

NRF would be happy to discuss our views further with you. Please contact Jens Røder on telephone +45 33691065 or email jr@nrfaccount.com

Yours sincerely,

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15 January 2010

Dear Sir,

Public Comment on the 'Auditor Communications: Consultation Report'

We appreciate the opportunity to comment on this consultation document from the Technical Committee of the International Organisation of Securities Commissions (IOSCO) on Auditor Communications. As a network, we are committed to promoting the consistent application of high quality audit practices worldwide in the public interest, and welcome the Committee's interest in this topic. We are also responding by separate letter to each of the two other consultation reports issued concurrently by the Technical Committee, on '*Transparency of Firms that Audit Public Companies'* and on *'Exploration of Non-Professional Ownership Structures for Audit Firms'*.

This response summarises the views of member firms of the PricewaterhouseCoopers network who commented on this consultation document. "PricewaterhouseCoopers" refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

We have not responded to each of the questions in the consultation document as some of these are directed specifically at investors. We have however provided in this letter some overall observations which address some of the matters raised in Questions 1-4.

The current form of audit report is a response to the norms of law, regulation, corporate governance, business behaviour and other features of market practice within which auditing and auditing standards have evolved. In that context, we believe that the audit report has served the markets well for a period of many decades. We do however hear comments from users about perceived shortcomings in the current format of the audit report, and other aspects of auditor communications that they would like to see changed. We fully support broader debate to explore this feedback. In doing so, we believe it will be important to explore the root cause of the comments, as some of them may be related to perceived difficulties with the wider corporate reporting model, rather than solely rest with the audit report.

Our comments in this letter are therefore focused on four key aspects that we believe to be of particular significance:

- The audit report is an integral element of the whole corporate reporting process and should be viewed and debated in that light.
- In the short term, to aid comparability and understanding for users, our view is that countries should adopt the current International Standard on Auditing (ISA) 700 for audit reporting to the maximum extent permitted by law or regulation.

- There are a number of research and other initiatives currently under way in the area of audit reporting – the results of which will help inform debate.
- At the same time, a dialogue should be initiated involving all stakeholders around potential medium and longer term enhancements to the corporate reporting model, including the audit report. That debate should also embrace discussion of potential barriers, including legal implications, to changes to the corporate reporting and audit models.

The corporate reporting and audit models have evolved together

The audit report is an integral component of the corporate reporting model and what is sometimes referred to as the 'corporate reporting supply chain'. Financial and other corporate reporting information that is released to the market is the end-product of a process that involves management, those charged with governance, standard setters, auditors and regulators and other enforcement agencies. The different steps and different actors in the chain are inter-dependent, and the overall quality of financial information is dependent on the quality of the inputs, and the relevant standards and regulations that apply, in each link of the chain. The way companies are organised and the differing corporate governance regimes in place in different jurisdictions are also important factors.

The current corporate reporting model (and the resultant audit report) has been built on an approach of "trying to get the financial statements right" before they are issued. This involves an iterative process of debate - and challenge - between management, those charged with governance (typically the audit committee) and the external auditors, in order to address potential areas of concern with the financial statements before they are finally approved by management and before the auditors provide their opinion on the financial statements. In some jurisdictions, securities regulations do not permit listed companies to file financial statements with a modified audit report, which further reinforces the need to resolve differences and correct any identified material misstatements before the financial statements are finalised. As a result of these market and professional practices, the ultimate published audit report may appear relatively perfunctory in nature, with a "binary" opinion that, in many ways, does not convey fully the value of the audit process in the overall corporate reporting supply chain.

Anecdotal experience and surveys indicate that investors are not always familiar with the scope of the audit or the contents of the audit report, and those that are have different views on how the report should evolve. Some would prefer a longer report that provides more information on the auditor's judgments. Others would prefer a shorter report so that the auditor's conclusion is more prominent[1]. As we note further below, some of the concerns that investors raise with respect to the audit report may be in fact concerns about the entire financial reporting process, not just the auditor's report. Furthermore, any changes to roles and responsibilities of one player in the corporate reporting supply chain may affect those of others in that chain.

We would welcome a debate and review of the wider corporate reporting model, including the audit report. However, for the reasons stated above, any initiative to change substantially a particular element in the corporate reporting chain should not be viewed in isolation from the other elements.

In the meantime, the objective should be to base each of the different elements of the present corporate reporting model, so far as is possible, on high-quality globally recognised and accepted standards.

1 A global survey of the views of 402 investors conducted in 2009 by IPSOS MORI for the Global Public Policy Committee of the six largest audit network firms found that 43% preferred a longer, more detailed audit report while 41% preferred a shorter more succinct report.

In the short term - adoption of a global benchmark for audit reports

As a network of member firms with clients around the world, we have long recognised the importance of and need for a robust set of international auditing standards that are accepted as the global benchmark and applied across the world's capital markets. We believe that the International Standards on Auditing (ISAs) as promulgated by the International Auditing and Assurance Standards Board (IAASB) are worthy of such recognition[2]. The structure and robust due process of the IAASB, with the oversight of the Public Interest Oversight Board, clearly position it as the global standard setter and the ISAs as high quality audit standards in the public interest.

The IOSCO consultation report provides, in Appendix 1, illustrative standard audit reports from selected major countries around the world. Although the core work of the auditor is ordinarily the same, the presentation of reports varies for local historical, cultural, regulatory and other reasons.

ISA 700 *'Forming an Opinion and Reporting on Financial Statements'*, in both its original guise and in the Clarity redrafted version issued in April 2009, was developed following extensive consultation. The standard was intentionally designed to accommodate variations that may exist in legal and regulatory reporting requirements in different jurisdictions that are beyond the opinion on the financial statements. (The ISA 700 format provides for a two-part audit report: the report on the financial statements and a report on additional legal and regulatory requirements.)

While recognising that there may be good reason why particular items are addressed in audit reports in different jurisdictions, we believe it would be unfortunate if, having achieved common acceptance of ISAs as the basis on which most audits are performed, the most visible public output of the audit process – the written audit report - appears to differ significantly. Audit reports on financial statements of listed and other public interest entities no longer stay within national borders and differences in the standard wording of auditors' reports may confuse readers and create uncertainty about differences that may or may not exist in the underlying audit.

We recognise elsewhere in this letter that there are stakeholders who would like the content of auditors' reports to be revisited. We fully support thought leadership and debate being focused in this area. IAASB has itself sponsored academic research to obtain information that will help inform that debate. However, the outcome from that debate is unlikely to come to fruition for a number of years. For this reason, we believe it would be beneficial for countries around the world to adopt now, to the maximum extent permitted by law or regulation, the extant ISA 700 audit report, while at the same time fully participating in and contributing to the IAASB's global discussions on how auditors' reports could change in the future. IOSCO is well placed to give encouragement to efforts to adopt the standard internationally.

Research on views on audit reporting

Extensive academic research has been conducted on the topic of investors' and other users' perceptions about the standard audit report. The research results and public reports have generally confirmed that there are mixed views regarding the usefulness of audit reports, including whether the current model could or should be enhanced and, if so, how best to do so.

In addition to the historical research, the IAASB and the US Auditing Standards Board (ASB)[3] have extensive projects on their agendas to consider commissioned research and other information to

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[2] We note that in June 2009 IOSCO issued a statement noting the improvements that resulted from the IAASB's project to clarify the ISA requirements and encouraging securities regulators to accept audits performed and reported in accordance with clarified ISAs for cross-border offerings and listings.

[3] The Auditing Standards Board sets standards for audits of US entities other than public companies. Standards for public company audits are set by the PCAOB.

assess user perceptions regarding the standard auditor's report[4]. There are also a number of other pieces of research currently under way that are examining aspects of audit reporting and auditor communications. These include:

- Work by the UK Auditing Practices Board (APB) to look at audit reporting
- Work by professional bodies in a number of countries including by the Institute of Chartered Accountants in England and Wales (ICAEW) to look at the role of the bank auditor and by the Institute of Chartered Accountants of Scotland (ICAS) to develop thought leadership on the future of audit reports
- Work in Europe by the Federation des Experts Comptables Europeens (FEE) to look at the auditor's role in providing assurance on corporate governance matters; and
- IOSCO's consultation paper on Auditor Communications.

We believe that a period of time will be needed to absorb and reflect on the results of all these initiatives. As the IAASB is the recognised international standard setter in this field, we believe it would be helpful if the output from these studies, including this IOSCO consultation, could be fed into the considerations by IAASB. It will also be helpful for the IAASB to receive input from a range of regulatory organisations, for example those that look after the banking, insurance and other financial sectors.

Some of the views highlighted in the recent research on auditor communications indicate a desire for more information regarding how the auditor has dealt with the risks related to the financial reporting supply chain, in particular:

- The difficult audit judgments that were brought to bear in an engagement.
- The auditor's judgment about the quality, not just the acceptability, of the issuer's accounting policies.
- A more detailed explanation of terms such as 'reasonable assurance', 'fair presentation' and 'material misstatements' and/or the level of materiality applied in the audit and how this was derived.
- Circumstances or relationships that might bear on the auditor's independence.
- Other matters of interest, such as the quality of internal controls.

These points are all worthy of consideration. In doing so, it will be important to consider and understand what each is intended to achieve, in order to determine the most useful and beneficial means of providing that information. While we are open to disclosing additional items in the audit report that add value and clarity to the quality of the audit process, we are also aware that creating additional disclosures in the audit report may have unintended consequences, such as increasing the auditor's work effort and cost without a commensurate benefit to audit quality, or shifting the respective roles and responsibilities of others in the corporate reporting supply chain. Thus, the advantages and disadvantages of changes in the audit report need to be carefully weighed. It is also important to distinguish between the information that users perceive they need to assess the quality of the *financial statements*, and the information needed to assess the quality of the *audit process*.

Furthermore, we believe that those users who ask for a different type of audit report may in fact be seeking a different type of audit, which would require regulatory and audit standard changes which will be more far-reaching than making modifications to the auditor's report. This would involve a recalibration of today's audit model – with consequent implications for other linked elements of the corporate reporting model. Suitable criteria would also have to be developed to provide a framework of reference for any "new" areas of assurance.

[4] Information on the four research studies commissioned by IAASB and US ASB is provided in the publicly available agenda paper 4A *'Auditor's Report – IAASB Working Group Report'* prepared for the IAASB meeting in December 2009.

PRICEWATERHOUSECOOPERS

Initiating a wider dialogue and debate

We encourage the commencement of a wide-ranging dialogue involving all stakeholders around the corporate reporting model, including the audit report. The changed environment of the recent global financial crisis provides a timely opportunity to bring constituencies together to debate different aspects of the models, including auditor communications.

Recent market events have exposed shortcomings in the corporate reporting model. The model did not flag up the systemic risks affecting financial institutions and the wider economy (though it would be inappropriate to single out corporate reporting in this regard, since many other elements and agencies in the 'financial architecture' also failed to identify the risks).

Some national regulators have initiated reviews of the complexity and relevance of corporate reporting (the UK Financial Reporting Council's recent consultation *'Louder than Words'* is an example). The financial crisis has reinforced the view of some that companies should be telling a clear story and providing real insights into what is important (including for example critical aspects of business performance, the dynamics of a company's business model, the key risks and relationships on which it depends, its funding structure, the alignment of business strategy to key performance indicators, and the link with senior executive remuneration).

Reporting the right information to meet users' needs is critical. What information should companies be publishing over the next 10-20 years? And how would such a rethink of the corporate reporting model impact the audit report and audit process? These questions encompass such issues as:

- Customisation for differing end-users – how can corporate reporting information be effectively tailored, for example using technologies such as XBRL, for the broad array of users?
- Non-financial information – stakeholders seem to agree that this type of information is increasingly important in assessing company performance.
- Assurance – there is a lack of consensus about the kinds of information that should be subject to audit, the timing under which audits should take place, and the methodologies and technologies that should be employed in such audits.[5]

Answers to these questions will not be found overnight and making fundamental changes to corporate reporting may seem daunting – but we encourage a progressive debate of these issues over the next few years to see how the corporate reporting and audit models might be able to enhance regulatory and user understanding of businesses' performance and financial position. Factors that should be considered include the most useful means of providing the information (in terms of who should provide it and the delivery mechanism), and the costs and benefits of providing the information. This would be in the public interest.

Such a debate should also embrace a thorough consideration of the potential barriers to enhancements in corporate reporting and auditing. These activities take place in an environment influenced by wider societal norms and trends. As auditors, we are significantly influenced in the work we do by factors outside our control such as the corporate governance environment at companies (including the extent to which shareholders are active in holding management to account) and the regulatory environment. Issues such as leadership style, 'tone at the top', and organisational behaviour have not however tended to feature strongly in the way standards (of accounting, auditing, regulation, etc) have developed.

Limitation of liability is a further issue that needs to be addressed if both company management and auditors are to be more forthcoming about issues such as key business risks. This was recognised in the American Assembly report of 2003[6] which noted:

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[5] A fuller discussion of these issues is contained in the document '*Global Dialogue with Capital Market Stakeholders – A Report from the CEOs of the International Audit Networks'* published in January 2008 by the six largest audit network firms.

"…If auditors are allowed, even required, to use more judgment, to change the format of financial statements and the nature of attestation standards – not to mention making changes in their audit opinions – regulators must bring a greater degree of rationality to the issue of auditor liability."

Steering corporate reporting into new directions may involve greater use of judgment and subjectivity than is the case today. Asking auditors to make greater use of judgment and to report on those judgments – something auditors are well-placed to be able to do – will be met with reluctance as long as doing so will expose the audit profession to more litigation.

In conclusion, we believe this forward-looking dialogue and debate should take place and that it should involve all stakeholders – not only investors, but all those with an interest in corporate reporting and auditing (preparers, standard setters, the audit profession, regulators and others). For our part, we are ready to provide insights and experience from current practice, and to share our views on factors that may affect the way corporate reporting evolves in the next decade or so. We encourage IOSCO to play a leading role in initiating that debate, and in urging other stakeholders, particularly users, to contribute views.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Peter Wyman (+44 20 7213 4777), or Jim Lee (+1 408 817 8280).

Yours faithfully,

PricewaterhouseCoopers LLP

[6] Report of the 103rd American Assembly November 2003 *'The Future of the Accounting Profession'*.

SEC Thailand
Auditor Communications
Consultation Report

Questions	**Comments**
1. Is the standard audit report useful to investors? If not, why?	Yes, the information provided in the standard audit report especially auditor's opinion are very useful and important to investors and other stakeholders for making their decisions. The standard audit report helps users to understand auditors' communication easily rather than other non-formatted communication which the users have to imply and anticipate the effect of financial statements.
2. Would investors prefer a more concise audit report (e.g. a one-sentence report that includes only the auditor's opinion on whether the financial statements are fairly presented)? If so, why?	No, investors, although, would prefer a clear and concise audit report, the audit report with only the auditor's opinion on "whether the financial statements are fairly presented" is not enough as the report should contain responsibilities of management and auditor, and the nature and scope of auditing. In some cases, such as a scope limitation, going concern and uncertainty problems, etc., auditors cannot conclude whether financial statements are fairly presented so there should be a specific sentence stated the situations of those circumstances as a caution to the investors.
3. Are investors receiving information about the audit that they need to make informed investment decisions? If not, who should provide this information—management or the auditor? For information that should be provided by the auditor, should changes to the standard audit report be made or are other auditor communications warranted? What should any new or revised auditor communications address (e.g., an auditor's analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditor's discussion and analysis of their independence and the work performed in an audit) and what form should it take (e.g. a revised standard audit report or a new auditor communication)? How would this additional information affect investors' use of audited financial statements? Over time, would the utility of such information diminish?	Yes, we believe that investors receive sufficient information about the audit to make investment decision. Since International standard on Auditing (ISA) already have requirements about auditor communication in the audit report to make sure that investors have enough information about the audit. For example, ISA 706 stated that auditor shall include an emphasis of matter paragraph or other paragraph in an audit report if it necessary to draw users' attention to a matter, in auditor's judgment, that is of such importance that it is fundamental to users' understanding of the financial statements or relevant to users' understanding of the audit, the auditor's responsibilities or the auditor report. However it should be more useful if investors receive additional information about the company's internal control which included in management letter as well as an auditor analysis of the company's risk. Such information should be prepared by an auditor and be communicated to investors through annual reports or other documents that publicly disclosed. Therefore, it is not necessary to make any changes to the standard audit report.
4. If new or revised auditor communications are desired, would such communications be practicable? What legal, regulatory and practical challenges would preclude such communications? What criteria or principles should regulators use to determine what additional information should be provided? Are there any alternative mechanisms for investors to receive this information without encountering these challenges (e.g. instead of new or revised auditor communications, mechanisms such as new or revised disclosures by management or those charged with governance)	With reference to the previous comment, the additional information about the company's internal control and the analysis of the company's risk can be practicable because the auditors have to review and assess this information before they perform their audit work; therefore, it should not affect much on the nature of audit procedures. However, these changes may affect audit reports and may require more subjective explanations and implications, therefore, inconsistencies in auditor reporting may make difficulties for investors to understand the report. Therefore, the content in an audit report should be balanced between the details of information and the uncomplicated and understandable information. The legal and regulatory effect of the auditor communications changes could be various depending on a country's laws and regulations regime. In Thailand, there is no specific regulatory that preclude auditor communication. Except for Code of Ethics for Professional Accountants which preclude auditor from disclose confidential client information.

Questions	Comments
	The criteria or principles that we use to determine additional information that should be provided included: - Investors benefit - Cost versus benefit to the company and auditor We believe that there are a lot of alternative ways for investors to receive information without encountering these challenges. For example; by monitoring company news, annual reports, regulatory filings and brokers' analysis etc.

27 November 2009

STANDARD LIFE INVESTMENTS

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Dear Mr Tanzer

PUBLIC COMMENT ON AUDITOR COMMUNICATIONS: CONSULTATION REPORT

Standard Life Investments is a subsidiary of Standard Life plc, a FTSE 100 listed company. It is a leading global institutional investor with assets under management at 30 September 2009 of €149.8 billion. The majority of these assets are invested in securities listed on international stock exchanges.

We are very pleased that IOSCO has taken the initiative to assess the usefulness of the standard audit report and to consult on this issue. As investors we rely heavily on audited financial information to assist us in taking stewardship and portfolio management decisions on behalf of our clients, who are long-term shareholders. Therefore, we attach considerable value to an effective audit process, which we believe is brought to bear at the vast majority of listed companies. However, we have been and continue to be critical of the standard audit report insofar as of itself it adds little or no value when it comes to assisting us in making decisions for stewardship and portfolio management purposes. In our view, the usefulness of the standard audit report is undermined by the use of boilerplate language, excessive use of statements relating to auditor liability limitation, and the binary nature of the audit opinion. These criticisms are usefully highlighted and discussed in your Consultation Report.

We should like to see progress towards more informative audit reports that are tailored to the company concerned so that they enhance the understanding of users of the audited financial information and otherwise assist shareholders in holding boards to account. Accordingly, we are keen that your initiative should deliver useful improvements. We hope that auditing firms and their professional bodies will respond to your initiative in such a way that they embrace its spirit and take positive steps to achieving progress.

Comments of Emphasis and Observation from a User's Perspective

With reference to the content of the Consultation Report, we should like to render the following comments of emphasis and observation to enhance your understanding of our perspective as users of audited financial information.

- Auditor Liability Concerns - Myth or Reality?

The last decade has witnessed considerable rhetoric, primarily from leading audit firms and networks, regarding what they consider to be the undue burden of auditor liability, which they have often cited as a reason for being unwilling to provide more informative audit reports. In the early years of such rhetoric, we tended to have some sympathy with it, taking the representations at face value. However, as time has gone by, we have witnessed no catastrophic failure of any major global auditing network by virtue of liability considerations and we have observed that shareholders and investors have generally taken a responsible approach to exercising their litigation rights. Accordingly, we are no longer inclined to regard auditor liability reasons as legitimate in defending the status quo of the standard audit report. Furthermore, we should emphasise that in the United Kingdom, statutory provision now exists to enable auditors to limit their liability, subject to the approval of shareholders. In this regard, UK institutional shareholders, including Standard Life Investments, have sent a strong signal that they are willing to consider favourably proposals that seek to limit liability on a proportional basis. However, it is notable that, to our knowledge, no auditor of a major UK listed company has sought to take advantage of these provisions; this serves to reinforce the basis for the shift in our perception of auditor liability.

That said, we recognise the reality that auditors are concerned about liability. Therefore, we encourage IOSCO to encourage legislators and regulators to take steps to enable the principle of proportional liability, which we consider to be fair and reasonable, to be established on a global basis so that there is a level global playing field that would serve to remove a practical barrier to making audit reports more useful.

- Perceived Shortcomings of the Current Standard Audit Report

We support the view set out in the Consultation Report that the criticisms cited therein are compounded by the limited amount of direct communication between auditors and users of financial statements, other than in the standard audit report. In the UK, we hope that the proposed Audit Firm Governance Code will go some way to improving the dialogue between auditors and investors on non-company specific matters. Also, we commend to you the efforts of the Global Auditor Investor Dialogue[1], which commissioned an independent working group that published enhanced disclosure guidelines relating to audit and risk matters for directors and others. The guidelines are for global application and were endorsed by a number of leading organisations including the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA). They can be found at www.enhanceddisclosure.org. A copy is enclosed for ease of reference.

Also, with a sense of conviction, we agree that the usefulness of the current standard audit report is undermined by the binary nature of the opinion and the use of boilerplate and technical language. These aspects detract from effective communication. We should like to see a more enlightened and informative opinion which uses language that is not only tailored to the circumstances but also is understandable by non-accountants.

- Cost Benefit of Improvements

Whilst we believe it would be beneficial to make improvements to auditor communications, we are mindful, from a pragmatic standpoint, of the need to ensure that any additional disclosures are largely derived from the work which auditors are already doing; this will help to ensure that any improvements proposed by IOSCO will not result on an unreasonable cost burden on issuers. In

[1] The Global Auditor Investor Dialogue is an informal forum whose members comprise the major global auditing networks and leading global investors and share owners.

assessing the cost benefit of such improvements we urge IOSCO to take a robust approach to challenging claims by audit networks for additional fees.

Questions to be Addressed in Assessing Whether Changes Should be Made

Q1. Are investors receiving inadequate information to make investment decisions? If so, should this information gap be filled? By whom?

The information gap does genuinely exist; investors receive inadequate audit related information to make appropriately informed investment decisions. In this regard, we should emphasise that 'investment decisions' include not only decisions as to whether or not to buy, sell or hold a security, but also stewardship decisions pertaining to the conduct of the company's affairs.

In our investment decisions, as referred to above, we find that we make increasing use of non-financial, narrative information, such as the management commentary and information pertaining to the company's corporate governance. Also, we make considerable use of information contained on corporate websites and the presentations made by companies at analyst presentations.

In the light of the above, we support the view in the Consultation Report that some of the perceived shortcomings of the standard audit report suggest that investors need more (or better) information to facilitate their investment decisions. We support the view put forward in the Report that some information gaps should be filled through disclosures by issuers rather than auditors. Equally, we believe that auditors should be more willing than is currently the case to attest to (1) the content of certain information issued by a company that is currently not within the scope of the audit and (2) its fair presentation. In this latter regard, we believe that auditors have a useful role to play in ensuring that information provided by issuers is presented objectively and without 'spin'.

Accordingly, we suggest that IOSCO should, in tandem with any recommendations for improving auditor communications, promote and foster the development of guidelines to assist issuers and others in respect of the information that is useful for investors and is not currently included within the scope of the audit. The aforementioned Guidelines for Enhanced Disclosure are illustrative in this regard.

Q2. For information gaps that should be filled by others, what should be the auditor's role with the additional disclosure?

To amplify our response to Q1, we should like the auditor to assure shareholders that, in relation to the additional disclosures, they:

- reliably reflects information that is supported by and/or is consistent with underlying books and records or other appropriate verifiable information;
- are reported in a fair and objective manner; and
- are appropriate for inclusion in information provided to and for shareholders.

In the event that, for example, certain aspects of the additional disclosure are not capable of verification by reference to the underlying books and records then this should be noted in the auditor's report if the matter is deemed material. For the avoidance of doubt, we believe that it would be better that such information is reported upon by the auditor in this way rather than not disclosed at all, provided that it is otherwise deemed appropriate for disclosure to shareholders.

One further aspect that we commend for consideration is the auditor's responsibility for ensuring that post-balance sheet date events and trends are properly taken into account by an issuer when presenting information to shareholders. We are concerned that undue emphasis is given to the state of affairs at the balance sheet date without due and prudential regard for post-balance sheet events and trends that might otherwise result in audited information being misleading and unsuitable for decision-making by shareholders and others.

Q3. *For information gaps that should be filled by the auditor, should changes to the standard audit report be made or are other auditor communications warranted?*

We do not regard the alternatives as mutually exclusive. In other words, we believe there are grounds for changing the standard audit report and for improving other auditor communications. Whilst we wish to see more useful audit reports, we do not wish them to be cluttered by so much information that users cannot see the wood for the trees. For example we commend the use of cross-referencing by auditors to additional information contained on an issuer's website.

We agree that the nature of auditing is not wisely understood by users of audit reports. We note the reference to the IAASB plans to consider whether to develop a communication to users of financial statements on the meaning of an audit. Whilst this may be useful, we believe that communication on such matters is probably best promulgated jointly with a different organisation that is demonstrably independent of standard setters and the major auditing networks. Perhaps IOSCO could play a role in this regard. Alternatively, IOSCO is better positioned than most to identify or set up the body which is best positioned to have responsibility for such communication. We envisage that there is a case for not only developing a 'foundation' communication on the meaning of an audit but also for communicating, in a timely manner, relevant developments pertaining to the audit and assurance environment that would be of genuine interest and use to shareholders and other users of audited information.

Q4. *What legal, practical and regulatory issues would result from any changes to auditor communication requirements?*

We have commented earlier in this letter regarding our views on auditor liability and auditor liability limitation. Whilst we acknowledge the legal realities and the practical challenges, we are somewhat cynical regarding the evaluation by audit firms of their litigation exposure. Accordingly, we encourage IOSCO to approach its responsibilities in the context of this consultation in a manner which seeks to find ways to enable improvements to be made rather than regarding any legal or practical challenges as immovable impediments to progress.

Conclusion

We hope that the views set out in this letter will assist the IOSCO Technical Committee in understanding the needs and views of a major global institutional investor. As well as being pleased to answer any questions that you may have arising from the matters raised in this letter, we are keen to be of continuing assistance. In this latter respect, we should be delighted to provide you with such additional assistance and support as you may reasonably request. Please do not hesitate to contact me if and when you believe we can be of further assistance.

Yours sincerely

Guy R. Jubb

Guy R Jubb
Investment Director, Head of Corporate Governance
Standard Life Investments

ENHANCED DISCLOSURE WORKING GROUP

GUIDELINES FOR ENHANCED DISCLOSURE

TO ASSIST DIRECTORS, AUDIT COMMITTEES, SHAREOWNERS AND INVESTORS

Created: January 2009
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ENHANCED DISCLOSURE WORKING GROUP

GUIDELINES FOR ENHANCED DISCLOSURE TO ASSIST DIRECTORS, AUDIT COMMITTEES, SHAREOWNERS, AND INVESTORS

INDEX

The Working Group would welcome any views and feedback. Please e-mail us at enhanceddisclosure@standardlife.com

PREFACE

The Global Auditor Investor Dialogue[1] recognises the need to restore confidence in the current economic climate and sees enhanced disclosures relating to accounting, audit and risk controls as having a pivotal role in achieving this. Accordingly, certain Dialogue members agreed to convene an independent working group to develop guidelines, which would focus primarily on disclosure and be capable of general application on a global basis, to assist not only boards and audit committees in fulfilling their responsibilities, but also investors and shareowners in their evaluation of annual reports and constructive engagement with companies on audit, risk and control matters. Members' intent is that the guidelines should compliment and support the contributions in this area by regulators and others. It is important to emphasise that they are guidelines not standards, and should be used as such, with flexibility and professional discretion.

The guidelines are intended to provide a practical tool, which should be tailored to circumstances of each company – for example, whether a company has a one-tier or two-tier board structures. Although the guidelines focus on companies with a one-tier board structure, it is recognised that in a two-tier structure many of the guideline provisions fall within the remit of the management board. Therefore, it is intended that the supervisory board would exercise appropriate oversight to monitor compliance.

Whilst early consideration and implementation of the guidelines is encouraged, the Working Group is very mindful of the increasing burden of responsibilities on boards, in general, and audit committees, in particular. That said, it is hoped that companies, directors, investors and shareowners will find the guidelines to be helpful and useful in respect of annual reports published in 2009 and beyond.

The Working Group is indebted to those who gave of their time to contribute their views during the development of the guidelines – their views helped to highlight deficiencies, temper the tone and otherwise bring valuable insights to bear.

Last but not least, the Working Group values greatly the endorsement of the organisations listed in Appendix I. Their support is invaluable and was never taken for granted and never will be. If others wish to give their endorsement, they would be very welcome[2].

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[1] The Global Auditor Investor Dialogue is an informal forum whose members comprise the major global auditing networks and leading global investors and share owners. These guidelines may or may not represent the views of the individual Dialogue members.
[2] Any organisation wishing to endorse these guidelines is invited to send details to enhanceddisclosure@standardlife.com

Information Flows to the Audit Committee

An audit committee's effectiveness is conditioned by the quality of information it receives from management in order to reach informed judgements on key risks and issues. This is especially important in the credit crunch environment in respect of information relating to cash flow, debtors, asset valuation and impairment testing. Management has a responsibility to ensure that it fairly presents to the audit committee all material information that might influence its decisions and it should confirm to the committee and the board that it has done so. In the event that there are significant areas for improvement that the audit committee has asked management to address then it would be useful if this were disclosed.

The audit committee members should enhance their understanding of the information it receives by visiting relevant areas of the company where appropriate.

Guideline #1

The audit committee should identify the information it needs to enable it to fulfil its responsibilities, which should be reviewed and analysed with an independent mindset, so that the committee is confident as to the completeness and integrity of the information it receives. The information should be provided to it in a timely manner and in a format which is complete, understandable and reliable.

The audit committee should confirm to shareowners and investors that it has received sufficient, reliable, and timely information from management to enable it to fulfil its responsibilities.

Risk & Internal Controls

Many companies provide a comprehensive description of their risk management and internal control systems, including whistle-blowing policies. In this regard, shareowners and investors find it useful to have a summary of the principal risks, especially when their potential impact is quantified. Also, they are concerned to know that the audit committee (or other relevant board committee) considers that the risk management and internal control systems are adequate and are operating properly. In making its assessment it is particularly important that the audit committee properly understands any financial instruments and structured products held by the company, in order to be able to identify the corresponding risks. Shareowners and investors are mindful of the considerable resource which has to be committed by independent non-executive directors to fulfil this responsibility but wish to be assured, without prejudicing the commercial interests of the company, that the responsible committee has the right blend of skills to identify and prioritise the most relevant risks and exercise effective oversight.

Guideline #2

The board, audit committee, or other relevant board committee should disclose what steps it has taken to satisfy itself that the risk and control framework and processes are operating, and have operated, properly. It should disclose a summary of the process it has applied (directly or through relevant committees) in reviewing the operation of the system of internal control and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. The scope should encompass business model, financial, operational and behavioural risks and incentives which impact on the achievement and evaluation of appropriate key performance indicators (KPIs).

Valuation of Assets and Liabilities

The increased use of fair value accounting and its pervasive significance have presented challenging issues for issuers, auditors and users of audited financial statements. The Working Group believes that the role of the audit committee is of critical importance to ensuring that a robust and appropriate approach is taken to the valuation of assets and liabilities (including contingent and off balance sheet items), and that adequate and appropriate disclosure, including a description of the inherent financial risks, is provided in the financial statements and the notes thereto. The audit committee should consider using independent experts to scrutinise the fair values which are proposed by management.

Guideline #3

The audit committee should provide reasonable assurance that the significant assumptions used for determining fair values have been scrutinised and, where appropriate, challenged by the audit committee. In addition, the audit committee should confirm that they have satisfied themselves that the markets and/or models to which the valuations are marked have liquidity and transaction profiles that are adequate and sufficiently robust for enabling reliable and relevant valuations to be determined. Also, that they are satisfied that there is meaningful disclosure of critical judgements and key estimates.

Where values deviate from available market values, the audit committee should minute its general considerations, the information which provided the basis thereof, and its final endorsement. Periodically, these considerations can and should undergo a careful ex-post examination. The audit committee should ensure that shareowners and investors are provided with an unbiased explanation of the factors which account for any significant deviation from previously reported values.

Write-Downs and Impairment Provisions

In addition to determining the primary valuation of assets and liabilities, management – and auditors – make significant judgements on write-down and impairment charges. The board and its audit committee have oversight responsibility to determine whether the process for write-downs and impairment provisions is adequate and appropriate. In particular, in respect of goodwill and other intangible assets, the audit committee should ensure that the process for determining the valuation takes into consideration the prevailing economic conditions.

Guideline #4

The audit committee should provide a brief, informative discussion of the factors which they have taken into account and the considerations they have made when fulfilling their responsibilities in respect of endorsing material write-downs and impairment provisions.

The audit committee, and ultimately the board, should carefully weigh other factors that might have influenced management's proposed write-downs and provisions with a view to satisfying itself that management's proposals are consistent with a true and fair presentation, free from bias, and take into consideration prevailing economic conditions.

Securitisation, Off-Balance Sheet and Contingent Liabilities

Investors and shareowners expect that there will be fair and unbiased disclosure of securitisation and off-balance sheet vehicles,[3] and contingent liabilities in the audited financial statements, since these vehicles and liabilities can be material to a company's financial position and, when appropriate, applicable regulatory capital ratios. Notwithstanding audit committees sometimes fail to give these items and their disclosure adequate attention, which can have serious adverse financial consequences.

Guideline #5

[3] Fundamentally, investors and share-owners do not encourage off-balance sheet vehicles and other such arrangements and expect them to be kept to a minimum.

The audit committee should satisfy itself that all material securitisation arrangements, off-balance sheet liabilities and contingent liabilities have been identified for financial reporting purposes and that they are disclosed in sufficient detail in the financial statements, in accordance with any applicable accounting standards. The audit committee should critically assess and, when appropriate, challenge the valuations ascribed to these liabilities, and the methodologies used to determine them, to satisfy itself that the valuations used are fair and reasonable. The audit committee report should contain a meaningful description of the work it has undertaken in this regard.

Internal and External Auditors

It is critical to the integrity of audited financial information that both the internal and external audit functions are evaluated effectively at least annually. In the current climate, shareowners and investors need to be assured that the audit functions are effective and have been robustly evaluated; the evaluations should encompass a review of audit quality. In this context, it is recognised that the internal audit function has finite resources. It should focus on its principal responsibilities which are different from those of the external auditors, whose role is to express an opinion on the financial statements.

In addition, on a continuing basis, the audit committee must satisfy itself as to the independence of the external auditors and as to the adequacy of disclosures and analysis of non audit fees.

Guideline #6

The audit committee should disclose when and how periodic formal evaluations of the internal and external auditors were undertaken and of the key conclusions arising therefrom[4]. The external auditors should be subject to annual evaluation and the audit committee should provide a convincing, informative and non boiler plate explanation which supports its choice of auditor.

If the external auditor should change, the board or the audit committee, as appropriate, should promptly disclose the change and provide an informative explanation of the reasons for it.

Executive Compensation & Risk

[4] A number of professional bodies publish review checklists such as the Institute of Chartered Accountants of Scotland's publication "Appraising your Auditors".

When addressing the financial crisis, many regulators, commentators and others have called into question executive compensation policies and practices which may incentivise executive behaviour that has been counter-productive to maintaining a well controlled, sustainable enterprise. Although determining compensation and remuneration policies and practices is primarily the responsibility of compensation and remuneration committees, the audit committee has an important role to assist these committees in ensuring that compensation policies and practices are consistent with an effective control environment. In particular, the board and/or the audit committee should satisfy itself that key finance, control and risk management personnel do not have inappropriate performance incentives – and only appropriate ones. In fulfilling this responsibility, regard should be had to KPIs, as referred to in Guideline #2 (Risk and Internal Controls)

Guideline #7

The audit committee should provide (a) a brief but informative description of its interaction with the compensation or remuneration committee in respect of executive compensation policies and practices and (b) comfort that the compensation policies and practices for top executives, key business unit leaders and senior control and risk management personnel are, in its opinion, appropriate for maintaining a robust control environment, consistent with good stewardship, and the long-term objectives and risk appetite of the company.

Substance not Form

A persistent criticism of many audit committee reports is the use of boilerplate language that fails to reflect the breadth and depth of the important activities undertaken. This is a barrier to effective accountability and transparency. Far better that the audit committee provides a useful and engaging account of the activities it has undertaken.

Guideline #8

The audit committee should provide a non-boilerplate report that provides an useful and engaging account of its activities, giving informative emphasis to key audit issues and how they are managed. All members of the committee and particularly the chairman are encouraged to take an active role in writing the audit committee report.

Audit Committee Charter

Many companies make their audit committee charter available on their website or include it in their proxy statement. Investors and shareowners welcome such disclosure but they are concerned to ensure that the charter remains 'fit for purpose', especially in the current economic environment. Mindful of the inherent complexities of accounting and auditing standards, and the significance of the judgements that have to be made in implementing them, the charter should enable the audit committee, at its sole discretion, and when it reasonably believes it necessary to do so, to obtain external independent advice at the company's expense so that it can fulfil its responsibilities with assured confidence.

Guideline #9

The board and audit committee should undertake annually a considered and in depth review of the audit committee charter, which should be disclosed on the company's website and, where appropriate, be included in their proxy statement, and satisfy themselves that it provides the terms of reference to enable the audit committee to fulfil its responsibilities. The board and the audit committee should disclose that the charter has been reviewed and summarise any changes that have been made to enable the audit committee to fulfil its responsibilities.

The audit committee should confirm that its charter permits it to obtain independent external advice at the company's expense and it should disclose whether or not it has obtained such advice. In addition, the audit committee should confirm that it has fulfilled its responsibilities under its charter.

Audit Committee Membership

Investors and shareowners want to be assured that the audit committee membership is reviewed at least annually. In addition, that it comprises one or more members – preferably one of whom is the chairman of the committee - who have relevant and recent financial expertise as well as relevant commercial experience. Furthermore, the independence of the committee is a cornerstone – indeed, investors generally prefer that all members of the audit committee are independent. It is vital that the committee members receive regular training to ensure they maintain their competence and credentials, and keep abreast of auditing, accounting, and relevant risk issues.

Special care and attention is required in these regards when addressing the membership of audit committees of financial services companies. Such companies often have complex activities involving complex products, for which the quality of auditing is essential and valuation is heavily dependent on applicable accounting practices as well as the ability to determine whether valuation data is relevant and robust – relevant commercial expertise is invaluable in this context. It would be a matter of significant concern if the audit committee of a financial services company did not have at least two experts, one of whom should have accounting expertise in financial services.

Also, it is important the board itself has the skill sets and competencies which will enable a knowledgeable discussion and exchange of views on the matters raised by the audit committee for the board's consideration.

Guideline #10

The board should disclose that it has reviewed the audit committee's composition during the year, and that it is satisfied that the audit committee has the expertise and resource to fulfil effectively its responsibilities, including those relating to any risk and controls.

Furthermore, the board should provide a convincing and informative explanation to support its opinion that the audit committee has not only recent and relevant financial and audit experience but also the commercial, financial and audit expertise to help it assess effectively the complex accounting, audit and risk issues it has to address. Any changes to the composition of the audit committee should be promptly disclosed and explained.

APPENDIX I

ENDORSING ORGANISATIONS

The undernoted organisations have kindly endorsed the Guidelines for Enhanced Disclosure.

Asian Corporate Governance Association

Association of British Insurers

California Public Employees' Retirement System (CalPERS)

Eumedion

Hermes Equity Ownership Services

International Corporate Governance Network (ICGN)

Railpen Investments

Standard Life Investments

Any organisation wishing to endorse these guidelines is invited to send details to enhanceddisclosure@standardlife.com

APPENDIX II

WORKING GROUP MEMBERS

Kenneth Bertsch *	Morgan Stanley Investment Management
Gerben Everts *	APG Investments
Guy Jubb * (Convenor)	Standard Life Investments
Mary Hartman Morris *	California Public Employees' Retirement System (CalPERS)
Isabelle Santenac *	Ernst & Young

* Member of The Global Auditor Investor Dialogue