Update on Auditor Reporting

Jessica Watts
Associate Chief Auditor, Office of the Chief Auditor
Presentation Overview

- PCAOB Auditor’s Reporting Model Project
- IAASB Auditor Reporting Project
- European Commission Proposal
Increase the usefulness and relevance of the auditor’s report while retaining its clarity

Cohen and Treadway Commissions supported enhancing the auditor’s report

Treasury Advisory Committee, American Assembly, SAG and IAG support reconsidering the auditor’s report

PCAOB considers revisions to the auditor’s reporting model a high priority
PCAOB Project Deliberations and Outreach

- April 2010 SAG Meeting
  - History of the US auditor’s report and discussion on potential ways to change the auditor’s report

- July 2010 SAG Meeting
  - Project framework and plans for outreach

- November 2010 – March 2011 Outreach
  - Staff-conducted outreach with investors, preparers, auditors, board members, academics, regulators and standard-setters

- March 2011
  - Investor Advisory Group – presentation on ways to improve the auditor’s report
  - Open Board Meeting – presentation to the Board on the staff outreach
  - SAG Meeting – overview of staff outreach
PCAOB Project Deliberations and Outreach (cont’d)

- **June 2011 Concept Release**
  - Presented four alternatives for changing the auditor’s report
  - Public comment period: June 21 – September 30, 2011

- **September 2011 Public Roundtable**
  - Discussion on the alternatives presented in the concept release
  - Participants included investors, preparers, auditors, board members, academics, regulators and standard-setters

- **November 2011 SAG Meeting**
  - Staff overview and discussion of comments received on the concept release and alternatives

- **March 2012 Investor Advisory Group Meeting**
  - Discussion topic: Role, Relevancy and Value of the Audit
  - Investor survey indicated a desire for a more informative auditor’s report
PCAOB Activities and Next Steps

- Ongoing discussions with the Board and the SEC
- Proposal for public comment in the third quarter of 2012
- Subsequent roundtable contemplated to discuss proposed standard
At the March 2012 meeting, IAASB considered the following –

- Requiring auditor commentary in auditor’s reports
  - Task force to refine criteria for and content of auditor commentary
  - Relationship between auditor commentary and emphasis of matter and other paragraphs to be clarified

- Requiring auditors to include conclusions about the auditor’s procedures related to going concern and other information in documents containing audited financial statements

- Clarifying the auditor’s responsibilities by describing the risk-based audit approach and other technical terms in the auditor’s report

- Using a “building blocks” approach to indicate required content while accommodating different national reporting regimes and entities of different types and sizes
IAASB Auditor Reporting Project (cont’d)

- IAASB activities and next steps –
  - May 2011 – Issued first consultation paper regarding potential changes to auditor reporting
  - June 2012 Meeting – Approve a second consultation paper for public comment
  - June 2013 Meeting – Approve an exposure draft for public comment
European Commission Proposal on the statutory audit of public-interest entities (November 2011)

Excerpts from Article 22 of the Proposal – The audit report shall at least:

- Indicate the date of the auditor’s appointment and period of total uninterrupted service
- Describe the methodology used in conducting the audit, including proportion of balance sheet directly verified and proportion based on system and compliance testing and change in proportion from prior year
- Lay out the details of materiality used in the audit
- Identify key areas of risk of material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty
- Provide a statement on the situation of the audited entity, especially an assessment of the entity’s ability to meet its obligations in the foreseeable future and therefore continue as a going concern
Excerpts from Article 22 of the Proposal, cont’d –

- Explain to what extent the audit was designed to detect irregularities, including fraud
- Indicate and explain any violations of accounting rules or violations of laws, accounting policy decisions, and other matters significant to the governance of the entity
- Declare that certain non-audit services were not provided and that the auditor remained completely independent in conducting the audit. Identify each member of the audit engagement team and state that all members remained completely independent and had no direct or indirect interest in the audited entity. Indicate the non-audit services that the audit committee allowed
- Refer to any matters to which the auditor draws attention by way of emphasis without qualifying the audit opinion
- Give an opinion on the consistency of the annual report with the annual financial statements
- Not exceed four pages or 10,000 characters
European Commission Proposal (cont’d)

- European Commission activities and next steps –
  - Proposal had its first hearing in Parliamentary committee March 2012
  - Full European Parliament vote tentatively scheduled for January 2013
  - Individual EU Member States must also approve in European Council
  - European Commission negotiation with Member States may result in revised proposal
  - Significant differences remain within Parliament and Council