

02 December 2013



**Institute of
Chartered Accountants
Australia**

The Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NSW
Washington, DC, 20006-2803 USA

Email: comments@pcaobus.org

Dear Sir/Madam

PCAOB Rulemaking Docket Matter No. 034
Proposed Auditing Standards *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and The Auditors' Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*

The Institute of Chartered Accountants Australia is pleased to respond to the above Rulemaking Docket.

The Institute has always been a strong supporter of enhancing auditor reporting as we believe that clear and informative auditor reporting is of value to the users of financial statements. Maintaining user confidence in the audit process is key to maintaining strong capital markets and auditor reporting that demonstrates the value of the audit to the users is key to achieving that aim.

We have consulted widely on the International Auditing and Assurance Standards Board (IAASB) proposals for changes to the auditor report and believe many of the matters raised by our members, who represent all participants in the financial reporting supply chain, are relevant to the PCAOB's proposals. We are restricting our comments to matters that were raised by our members during those consultations and not all the matters covered in the Rulemaking Docket.

Global Consistency

We note that the PCAOB and IAASB have consistent aims to enhance the value of the audit report through increasing transparency in relation to the judgments inherent in the audit process. This has led to many consistencies in the proposals. However we strongly urge more direct liaison as you contemplate responses and finalise recommendations.

The global nature of markets and investment, and the sizable number of companies reporting in multiple jurisdictions, mean even slight variations in wording or content can cause great expense to manage different compliance obligations, and great confusion for users. For example, understanding whether the difference between a "critical audit matter" and a "key audit matter" is merely wording or a more fundamental difference, is an unnecessary complication for users and can inhibit understanding and confidence in the audit process.

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Critical Audit Matters

Our recent consultations with members in relation to similar proposals from the IAASB revealed mixed views among stakeholders. While many, including investor bodies, saw advantages in an explanation of the important judgments made by the auditor, there were widespread concerns about the actual and potential costs associated with implementation. These include the:

- costs, time and resource to manage the expanded reporting requirements
- increased liability
- number of additional pages to the audit report, potentially losing the impact of the opinion and adding further to the length of annual reports
- amount of additional documentation in audit files to manage potential subsequent regulator review and challenge

The benefits to users of additional commentary by the auditor do not seem to outweigh these costs.

There were strong preferences expressed for a model where the company provides additional information to the users and the auditor provides assurance over that information. This was particularly evident when understanding that users were actually interested in the company's risks and judgments rather than audit procedures.

However on the basis that the proposals are pursued, we recommend that critical audit matters:

- be identified through principle-led judgment (rather than prescription), with clear and concise guidance around the framework for application of the principles
- focus on why the matter is of interest to users of the financial statements and not on what audit procedures were performed.

Tenure of auditors

Although not part of the consultation for the IAASB proposals, we would like to comment on the proposal to disclose the tenure of the auditor. We do not support including this information in the audit report. The date of appointment is available elsewhere in most jurisdictional regimes (and through the 10K process in the US). Including the information in the audit report:

- implies this is a defining matter or a key point of reference for users when in fact there is no evidence about the impact of tenure on audit quality
- merely adds to the length of the report and the amount of information users need to sort through.

The Institute of Chartered Accountants Australia

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 73,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.


The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 61,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of both the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide; and Chartered Accountants Worldwide, which brings together leading Institutes of Chartered Accountants in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support, develop and promote over 320,000 Chartered Accountants in more than 180 countries around the world.

Further information

We trust you find our comments of value. Should you require further information or clarification on any of our views, please contact Liz Stamford, Head of Audit Policy via email at liz.stamford@charteredaccountants.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lee White', written in a cursive style.

Lee White
Chief Executive Officer