



JOINT BREAKFAST DEBATE:

Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?

Thursday 26 September 2013

Brussels, Belgium

TODAY'S SPEAKERS



Olivier Boutellis-Taft
FEE Chief Executive
Opening remarks

Philip Johnson
Former FEE President
Introduction
Moderator of the debate



David Wood
ICAS Executive Director – UK
Presentation of ICAS' 'Balanced and Reasonable'

TODAY'S SPEAKERS



Is it possible for auditors to provide a positive opinion on narrative reporting?

Would the benefits of providing assurance outweigh the additional costs?

Anthony Carey
ICAS – UK



Is there investor demand for the provision of positive assurance over the front-half of the annual report?

Andreas Dörschell
IDW – Germany



Would the current IAASB assurance framework need to be revised to make the provision of such an opinion possible?

David Isherwood
ICAEW – UK



What has been the experience of Nordic countries?

Anders Bisgaard
FSR – Denmark



OLIVIER BOUTELLIS-TAFT FEE CHIEF EXECUTIVE



Opening remarks

JOINT BREAKFAST DEBATE: Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?





PHILIP JOHNSON
FORMER FEE PRESIDENT



Introduction to the debate

Moderator

JOINT BREAKFAST DEBATE: Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?



DAVID WOOD
ICAS EXECUTIVE DIRECTOR - UK



'Balanced and Reasonable' April 2013



JOINT BREAKFAST DEBATE: Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?



Balanced & Reasonable

- Assurance on Narrative Reports

David Wood, Executive Director, Technical Policy

Joint FEE / ICAS Discussion Event
Brussels - 26 September 2013



Future of Assurance

- Reaction to financial crisis
- How to make audit / assurance more useful?
- Demand for greater assurance on front half of annual report?
- ICAS "Future of Assurance" report
- Directors' assertion and Auditors' opinion: "balanced and reasonable"
- Assurance on integrated reports?

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Forward and back?



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User Perspective

- ICAS Research – Ian Fraser 2010/11
- What assurance is needed?
- Content:
 - Complete?
 - Consistent?
 - True, not misleading?
 - Spin?
- What assurance is being given?
 - Clearly expressed and understandable?
 - Positive vs negative vs by exception
 - How much assurance?

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Balanced & Reasonable: Definition

- Benchmark criteria for assurance
- Free from bias
- Realistic perspective
- Appropriate – based on info available at the time
- Truthful, honest – view of skilled professional
- Assumptions and judgements sensible and justifiable
- Complete (materiality?)
- Consistent – with financial statements
- Consistent – with auditors knowledge
- Supported by evidence / judgement
- Understandable?

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Balanced and Reasonable: Issues raised for Debate

- How much extra work is needed?
- User demand?
- Cost vs benefit?
- Evidence vs judgement
- Future oriented information - disclaimer?
- Balanced and reasonable – not true and fair!
- Auditor capability and willingness
- Barriers to implementation
- Need to review and revise IAASB Assurance Framework?

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IAASB Assurance Framework

- Key communication to stakeholders?
- Clear communication of nature & extent of assurance – reduce expectation gap
- How to measure & communicate the level of assurance provided?
- High / Medium / Low or spectrum of confidence levels?
- De-link positive / negative / by exception?
- Facilitate broader assurance services
- Evidence vs Judgement

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Going Forward

- Stakeholder meetings
- Discussion events – Brussels & London
- Consultation comments
- Summary feedback to:
 - IAASB
 - IIRC
 - UK FRC
- Public & Others
- Assurance on Integrated Reports?

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ANTHONY CAREY

ICAS - UK



Is it possible for auditors to provide a positive opinion on narrative reporting, namely the front-half of the annual report?

Do you believe that the benefits of providing such assurance would outweigh the additional costs?

JOINT BREAKFAST DEBATE: Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?



ANDREAS DÖRCHELL

IDW- GERMANY



Is it possible for auditors to provide a positive opinion on narrative reporting, namely the front-half of the annual report?

Do you believe that there is investor demand for the provision of positive assurance over the front-half of the annual report?

JOINT BREAKFAST DEBATE: Is positive assurance on narrative reporting the way forward to meet stakeholders' needs?



Andreas Dörschell
26th September 2013

Question

Is it possible for auditors to provide a positive opinion on narrative reporting, namely the front-half of the annual report?

- German experience of assurance on Management Report
- German Commercial Code sets forth auditor's role
- Standard - IDW AuS 350 currently under revision

Opinion in Germany, current wording



“The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.”

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Revision of the German Standard



- Why revise?
 - New accounting standard governing Management Report (GAS 20)
 - Align to ISA risk-based approach
 - Practice evolving over time
 - Revisions to EU Accounting Directives
- Nature of information impacts assurance procedures (historical vs. future-oriented)
- Need to clarify limitations when reporting

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Question



Do you believe that there is investor demand for the provision of positive assurance over the front-half of the annual report?

- Yes – strong investor interest
- Historical financial information alone – of limited use in decisions on future investments
- Investors need to gauge future prospects too and thus need **credible** information
- Profession can give a degree of comfort on credibility of relevant information
- Recent revisions to the EU Accounting Directives imply there is a growing case to involve auditors
- Ultimately legislators need to assess cost: benefit

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FEE / ICAS Joint Breakfast Debate

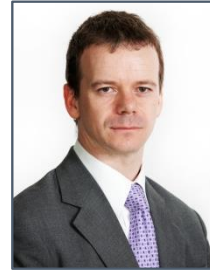


Thank you



DAVID ISHERWOOD

ICAEW - UK



Is it possible for auditors to provide a positive opinion on narrative reporting, namely the front-half of the annual report?

Would the current IAASB assurance framework need to be revised to make the provision of such an opinion possible?

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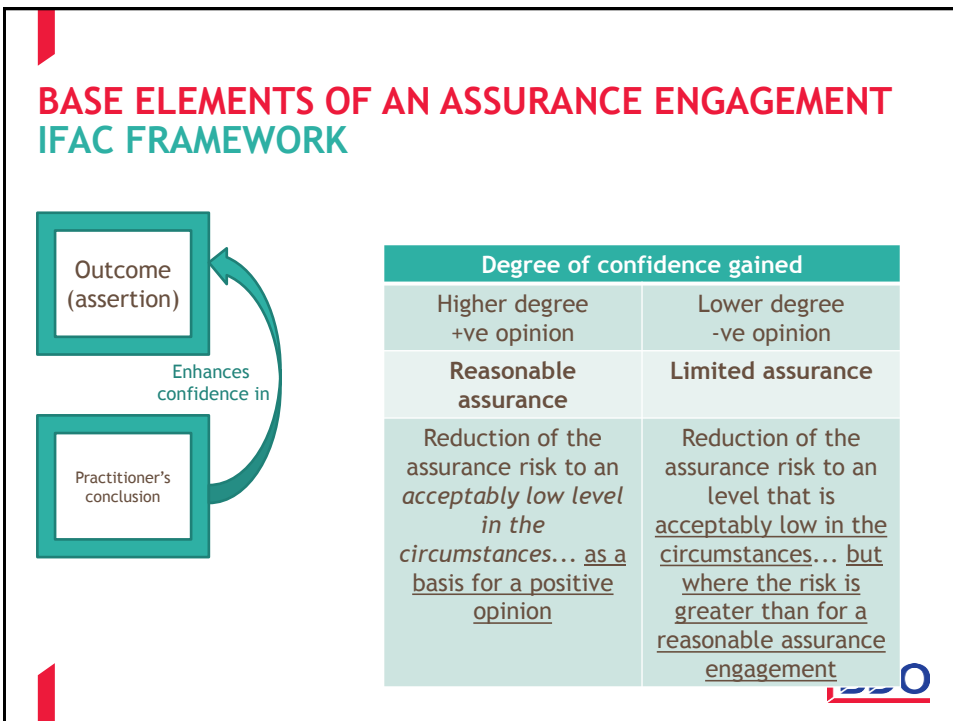
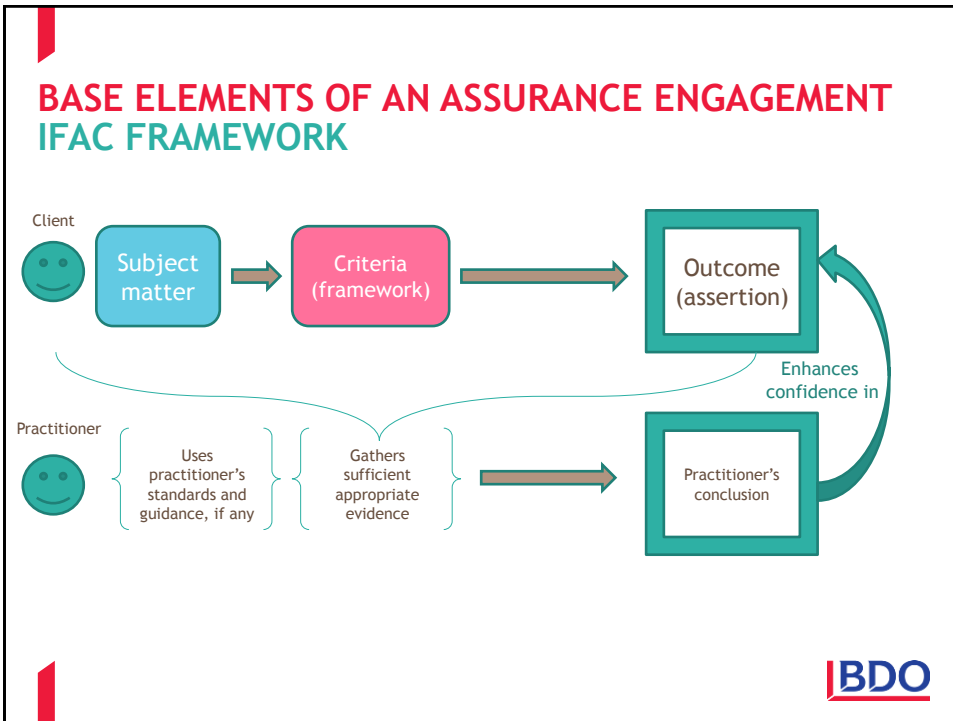
BALANCED AND REASONABLE

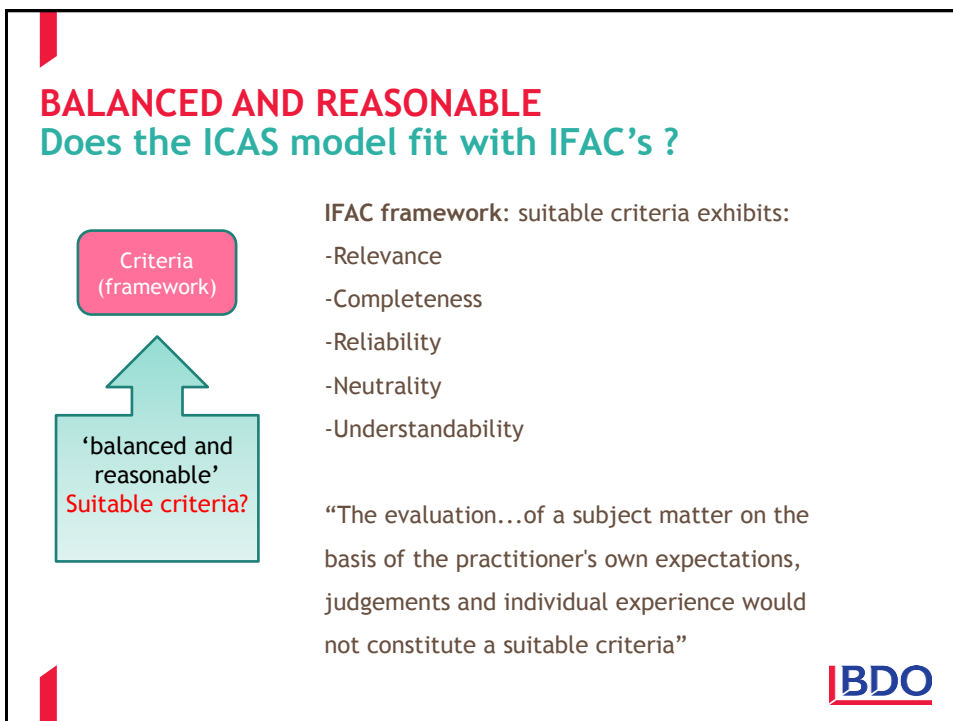
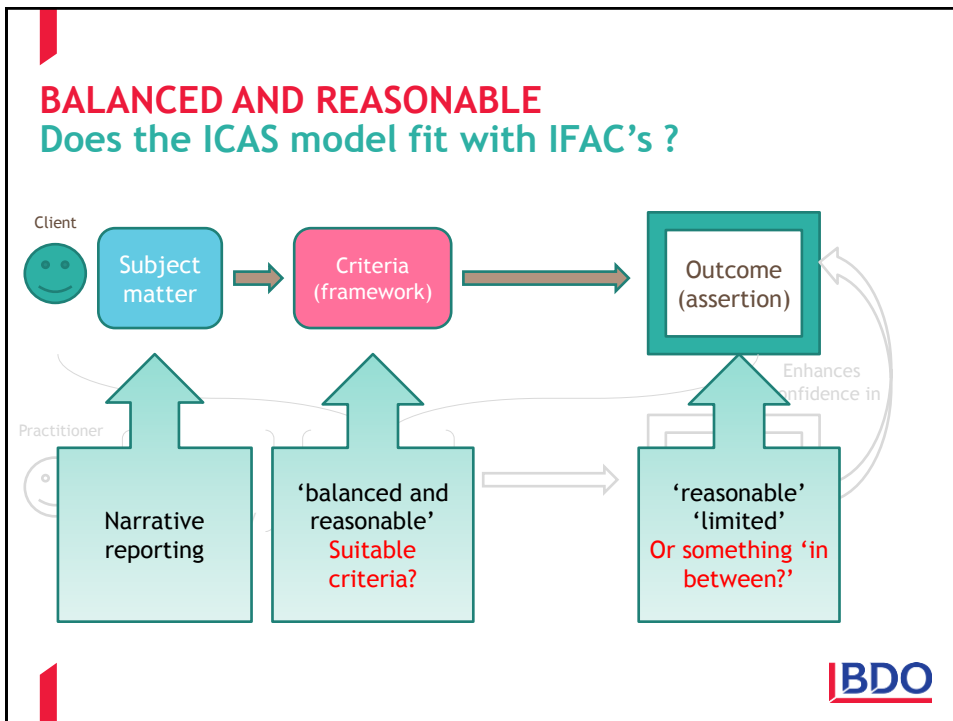
"Would the current IAASB assurance framework need to be revised to make the provision of such an opinion possible?"

DAVID ISHERWOOD
PARTNER, AUDIT ADVISORY
BDO LLP

SEPTEMBER 2013

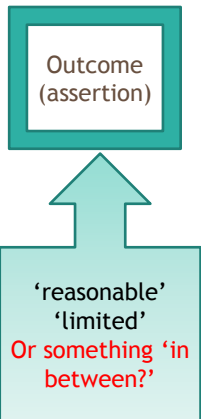






BALANCED AND REASONABLE

Does the ICAS model fit with IFAC's ?



“The conclusions [from the group] did not go so far as to define the type of assurance that could be expressed...that is whether ‘reasonable assurance’ or ‘limited assurance’ could be provided. However, the groups opinion [was for the expression of a positive opinion]”

“...we would challenge the IAASB’s Framework as being too restrictive...consideration has to be given as to whether it would be better to expand it to 3 tiers of assurance...”

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THE ICAS MODEL

Reasonable, Limited or something ‘in between’

Question:

- Does the IFAC framework require expanding to incorporate three assurance levels? or
- Does the ICAS criteria require a rethink to be ‘suitable’ for use as a basis for ‘assurance’

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BALANCED AND REASONABLE

"Would the current IAASB assurance framework need to be revised to make the provision of such an opinion possible?"

DAVID ISHERWOOD
PARTNER, AUDIT ADVISORY
BDO LLP

SEPTEMBER 2013



ANDERS BISGAARD

FSR - DENMARK



Is it possible for auditors to provide a positive opinion on narrative reporting, namely the front-half of the annual report?

What has been the experience of Nordic countries?

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Positive assurance on narrative reporting? – Danish experience

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We used to audit the Management's Review

- Historically: Management's Review was an integrated part of the Annual Report and as part of the Annual Report subject to audit:

We have audited the Annual Report of Company B A/S for the financial year 1 January – 31 December 200x, which comprises the Management's Review ... the income statement, balance sheet, ...

Opinion

In our opinion, the Annual Report gives a true and fair view of ... in accordance with the Danish Financial Statements Act.

- In 2009 The Annual Report is split up in a number of statements, requiring audit or a separate statement on the Management's review in the auditors report:

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

- In 2010 the clarified IAS was introduced in DK – The IAASB Framework was interpreted not to allow an audit of Management's review

- Danish Audit Regulation still allows audit as well as the separate statement
- If the auditor in addition to the consistency check becomes aware of material errors or omissions in the management review, the separate statement shall also include a description

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Reasonable was illustrated and argued in the national auditing standard developed in 2005 (DK-AS 585)

Types of information	Historical	Non-historical
Financial	High	
Non-financial		Lower

Reliability Level of documentation

▪ The auditor should modify his report if:

- Information required by law was omitted from Management's Review
- Management's Review contained a material misstatement
- The auditor had not obtained sufficient appropriate audit evidence about significant statements in the Management Review

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Balanced seems to be the real problem Reporting requirements in The Danish Financial Statements Act

▪ The financial statements shall give a true and fair view of the company's assets and liabilities, financial position and results => acceptable financial reporting framework

▪ Management's Review must in larger entities include a fair presentation of the matters dealt with – as a minimum

- 1) describe the main activities,
- 2) describe any uncertainty of the recognition or measurement purposes,
- 4) explain the evolution of the company's operations and financial position,
- 6) describe the company's likely future development including special conditions and uncertainties, which management has based its description,
- 7) describe the company's knowledge resources if they are of particular importance for future earnings,
- 8) describe the specific risks beyond the common risks in the enterprise sector, including business and financial risks that may affect the company,
- 9) describe the company's impact on the external environment and measures to prevent, reduce or remedy any damage to,
- 10) describe the research and development activities in or for the enterprise

And in PIE additionally:

- CSR reporting
- Targets for the share of the under-represented sex in the body charged with governance
- Report on corporate governance

How do we move from "Material errors and omissions" to "Balanced" ?

=> do we need a reporting framework for Management's Review, e.g. assertions like Occurrence and Accuracy are easier than Completeness and Understandability ?

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JOINT BREAKFAST DEBATE:

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*Thank you for coming!
Please send us your feedback via the survey
we will email you.*