



**Survey on the direct communication of auditors with the public on the statutory audit of the annual or consolidated accounts of listed companies**

As the committee of European securities regulators, CESR-Fin has a strong interest in the quality of the audit of listed companies. A CESR-Fin Project Group was mandated by CESR-Fin to monitor the current work undertaken in the area of auditing. The subject of the survey is the direct communication of auditors with the public, in particular shareholders and potential investors, on their statutory audit of the annual or consolidated accounts of listed companies.

After a number of corporate scandals, measures have been taken at national and European level to restore trust in the quality of audits of (in particular) listed companies. Examples are the introduction of the Sarbanes Oxley Act in the United States and the revised 8<sup>th</sup> Directive on statutory audit in the European Union. The most important measures taken are the introduction of independent auditor oversight and improvements to corporate governance codes to regulate the relationship between the auditor and the management/supervisory boards of companies. On the international level IOSCO has published two related documents: “*Principles for Auditor Oversight*” and “*Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence*”.

An element of the audit process which has not been explored in the recent past is the nature and amount of communication of the auditor with the public and in particular shareholders or potential investors on the fairness of the annual or consolidated accounts and on matters that received specific attention during the conduct of an audit. Traditionally the auditor communicates with the (potential) investors via the auditor’s report. The standard auditor’s report as prescribed by the IAASB (International Auditing and Assurance Standards Board, a standards setting board of the International Federation of Accountants) is intended to report in a summary manner on the auditor’s opinion in respect to the fairness of the annual accounts in relation to the reporting framework. The text of the unqualified opinion says (ISA 700 The auditor’s report on financial statements):

*“AUDITOR’S REPORT  
(APPROPRIATE ADDRESSEE)*

*We have audited the accompanying balance sheet of the ABC Company as of December 31, 20X1, and the income statement, statement of changes in equity, and cash flow statement for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.*

*We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin]) (and comply with ... )*

*AUDITOR  
Date*

This auditor’s report is not very informative in respect of the scope, conduct and outcomes of the audit itself, except in those relatively rare circumstances where the report is modified according to

ISA 701<sup>1</sup> to draw the readers' attention to a specific matter that may affect the auditor's opinion. It gives little or no answers to, for example, the following questions:

- 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?  
Etc.

If auditors should answer this type of questions, the process that led the auditor to conclude would become more transparent for investors. Investors might be able to better assess the quality and inherent limitation of an audit by themselves and competition between auditors/audit firms on quality could possibly be enhanced.

There are several possibilities to provide this kind of information to investors, for example:

- to broaden or expand the content of the standard auditor's report;
- to introduce a separate written account of the auditor on these issues ("audit discussion and analysis");
- to facilitate direct exchange of information between the investor and the auditor, i.e.: the possibility to ask questions in writing or in person in the annual meeting of shareholders;
- to enhance communication to investors through communications on audit matters by audit committees;
- to publish the auditor's engagement letter;
- To publish a "transparency report" as required by article 40 of the revised 8<sup>th</sup> Directive.

Limitations to providing information directly from the auditor to the investors are to be found in national legislation and professional standards. In particular the principle of auditor's confidentiality with respect to information on the listed company could be a hindrance for providing more in depth information on the audit.

This survey is explicitly limited to the direct communication of the auditor to shareholders and investors, in respect to the audit of the annual or consolidated accounts of listed companies. The auditor also communicates with the management and board of directors of the listed company on the terms of his engagement and the outcomes of his work. This communication<sup>2</sup> is generally more elaborate and covers more subjects than the auditor's report to the investors, but is not part of this survey. Also in a number of countries auditors are asked by national regulations or standards to report on work done in relation to special matters or events (like assessing internal controls, verifying management remuneration, related party transactions, going concern assumption, issuance of new financial instruments, etc.) or on special events (like issuance of shares). These special auditor's reports are also not included in this survey. The reasons for these limitations are that the survey should not be too extensive<sup>3</sup> and therefore too complex for both completion and analysis of responses.

This short survey has two purposes. The first purpose is fact finding on direct communication of the auditor with the public in CESR member states. The second purpose is identifying the desirability of potential enhancement of direct auditor communication as perceived by CESR members. The survey is an internal survey. Depending on the outcomes the subject of direct communication could be explored further.

24 Members submitted their responses.

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<sup>1</sup> ISA 701 « Modifications to the Independent Auditor's report»

<sup>2</sup> Such communication is currently the purpose of ISA 260 « Communication of audit matters with those charged with governance» and will also be mandatory in the EU as a result of articles 41-4 and 42 of the revised 8<sup>th</sup> Directive.

<sup>3</sup> A survey of current requirements and practices in the EU Member States may be of interest at a later stage.

**I. Actual forms of reporting and communication by the auditor on the statutory audit of *listed companies* to the public required by laws or regulations in your jurisdiction.**

**Table 1**

*Q1 - Is the auditor required to use a standard format for the auditor's report with respect to:*

	a) Form?	b) Content?	c) Types of opinion?	d) Wording of the opinion?
YES	21	23	24	20
NO	3	1	0	4
No response	5	5	5	5

All respondents replied that, in their country, the statutory auditor is required to use a standard format with respect to the type of opinion in his/her report. A majority of respondents also replied that the statutory auditor is also required to use a standard format with respect to the form, the content and the wording of the opinion in his/her report.

**Table 2**

*Q2 - Is the standard format to be used the IAASB standard (in particular ISA 700)?*

YES	9
NO	15
No response	5

**Table 3**

*Q3 - Is the format to be used a national standard?*

YES	15
NO	9
No response	5

**Table 4**

*Q4 - Is the national standard based on ISA 700?*

YES	15
NO	0
N/A	9
No response	5

The standard format used in Member States is either ISA 700 (9 respondents) or a national standard based on ISA 700 (15 respondents).

**Table 5**

*Q5 - Does the national standard format require the auditor to comment on the:*

	a) Scope of the statutory audit?	b) Conduct of the statutory audit?	c) Outcome of the statutory audit in addition to the auditor's opinion?
YES	12	11	9
NO	3	4	6
N/A	9	9	9
No response	5	5	5

For a majority a respondents, the national standard requires the auditor to comment on:

- the scope of the statutory audit,
- the conduct of the statutory audit

- the outcome of the statutory audit in addition to the auditor’s opinion

**Table 6**

*Q6 - Do national standards have requirements regarding the “emphasis of matter”?*

YES	15
NO	0
N/A	9
No response	5

All national standards have requirements regarding the “emphasis of matter”.

**Table 7**

*Q7 - Is the emphasis of matter frequently used in auditor’s reports?*

YES	11
NO	13
No response	5

Respondents have mixed feelings whether the “emphasis of matter” is frequently used in auditor’s reports. The most frequently mentioned circumstances that lead to an “emphasis paragraph” are:

- going concern assumptions (11 times)
- significant uncertainties (5 times)

**Table 8**

*Q10 - Is the auditor required to give to the public a separate account on the:*

	a) Scope of the statutory audit?	b) Conduct of the statutory audit?	c) Outcome of the statutory audit?
YES	2	2	2
NO	22	22	22
No response	5	5	5

A large majority of respondents replied that the auditor is not required to give to the public a separate account on the scope, conduct or outcome of the statutory audit (22 respondents).

**Table 9**

*Q11 - Is the auditor in general required to attend the AGM in his/her capacity as auditor?*

YES	10
NO	14
No response	5

**Table 10**

*Q12 - Is the auditor only in specific circumstances required to attend the AGM in his/her capacity as auditor?*

YES	9
NO	15
No response	5

**Table 11**

*Q14 - Is the auditor allowed (and not required) to attend the AGM in his/her capacity as auditor?*

YES	16
NO	3
N/A	5
no response	5

In all responding countries the auditor is required or allowed to attend the AGM:

- In 10 countries there is a general requirement (Austria, Belgium, Cyprus, France, Hungary, Latvia, Norway, Poland, Portugal and NL).
- In 7 countries this is only required in specific circumstances, for example on request of the board of the company or the shareholders (Denmark, Estonia, Finland, Germany, Slovenia Romania and Spain).
- In 6 countries (Italy, Czech Rep, Ireland, Luxembourg, Malta and UK) the auditor is allowed but not in anyway required to attend the AGM.

**Table 12**

*Q13 - If the auditor is required to attend the AGM what is the auditor required or permitted to do:*

	a) Give oral answers to oral questions from shareholders?	b) Give written answers to written questions from shareholders?	c) Give a presentation on the statutory audit for the shareholders?	d) Inform the AGM if the company's management gives a representation of the financial situation or results that is not in accordance with the audited annual or consolidated accounts?	e) Other. If yes, please explain.
YES	11	6	8	9	4
NO	2	7	5	3	9
Not regulated	2	2	2	2	2
N/A	9	9	9	10	9
No response	5	5	5	5	5

**Table 13**

*Q15 - If the auditor is allowed to attend the AGM what is the auditor allowed to do:*

	a) Give oral answers to oral questions from shareholders?	b) Give written answers to written questions from shareholders?	c) Give a presentation on the statutory audit for the shareholders?	d) Inform the AGM if the company's management gives a representation of the financial situation or results that is not in accordance with the audited annual or consolidated accounts?	e) Other. If yes, please explain.
YES	11	5	6	6	7
NO	5	11	10	10	9
N/A	6	6	6	6	6
Not regulated	2	2	2	2	2
No response	5	5	5	5	5

In the majority of responding countries, an auditor, when required or allowed to attend an AGM, is allowed to give oral answers to oral question from shareholders (20 respondents).

The same auditor is allowed to:

- Give written answers to written questions from shareholders in 12 countries (Czech Rep, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Norway, Poland, Slovenia, Romania and the Netherlands)
- Give a presentation on the statutory audit in 14 countries (Belgium, Czech Rep, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Norway, Poland, Slovenia and Romania)
- Inform the AGM if the company's management gives a representation of the financial situation or results that is not in accordance with the audited annual or consolidated

accounts in 15 countries (Belgium, Cyprus, Czech Rep, Estonia, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovenia, Romania, the Netherlands and UK)

In only two countries (Hungary, Lithuania), the intervention of the auditor in the AGM is not regulated.

**Table 14**

*Q16 - Is the role of the auditor in the AGM or the information the auditor can give to the AGM restricted by confidentiality regulations, meaning that the auditor can not give confidential information on the company to the public?*

YES	22
NO	0
Not regulated	1
No response	6

**Table 15**

*Q17 - Are there any other limitations to the role of the auditor in the AGM or the information can give to the AGM?*

YES	2
NO	20
Not regulated	1
No response	6

In almost all responding countries, the role of the auditor in the AGM or the information the auditor can give to the AGM is only restricted by confidentiality obligations.

**Table 16**

*Q18 - Is the auditor required to make its engagement letter for the statutory audit publicly available?*

YES	0
NO	24
No response	5

The auditor is not required to make its engagement letter for the statutory audit publicly available in any of the responding countries.

**Table 17**

*Q19 - Is the listed company required to make publicly available the auditor's engagement letter for the statutory audit?*

YES	1
NO	23
No response	5

In only one responding country (Italy) a listed company is required to make publicly available some specific elements of the engagement letter in relation to the amount of fees and the term of the engagement, during the shareholders meeting that appoints the auditor. Alternatively the company is required to make publicly available the auditors' engagement letter for the statutory audit.

**Table 18**

*Q20 - Is there a standard requiring a written management letter - or another form of detailed communication - on the finding and results of the audit?*

YES	16
NO	8
No response	5

In a majority of responding countries, there is a standard requiring a written management letter - or another form of detailed communication- on the finding and results of the audit (16 countries).

**Table 19**

*Q21 - Is the auditor required to make its management letter on the statutory audit available to the public?*

YES	0
NO	24
No response	5

**Table 20**

*Q22 - Is the listed company required to make publicly available the management letter on the statutory audit?*

YES	0
NO	24
No response	5

There is not a requirement in any of the countries, to make the management letter on the statutory audit available to the public, neither by the auditor, nor by the listed company.

**Table 21**

*Q23 - Are there any other forms of communication and reporting required in your jurisdiction?*

YES	8
NO	16
No response	5

In the majority of countries (16), there are no other forms of communication and reporting required on the statutory audit.

In two countries (France and Denmark) there are special reports. In one country (Denmark), the auditors are required to draw up a statement to be attached to the annual accounts if the auditors have ascertained that the Board has for instance not fulfilled its duties in respect to the rules of procedure. In the other country (France), the auditor is required to make a special report to the AGM in the event of the application of the alert procedure (going concern) set out in the Commercial Code. The auditors shall also communicate to the AGM the conclusions of the report they intend to present to the shareholders' general meeting on irregularity and inaccuracy.

## II. Desired forms of reporting and communication by the auditor on the statutory audit of listed companies to the public

**Table 21**

*Q24 - Is or could one or more of the following kinds of reporting and communication be of value to the public in your jurisdiction:*

	a) A more informative auditor's report?	b) A separate account of the auditor on the scope, conduct and outcome of the audit?	c) An active role of the auditor by answering questions?	d) A passive role of the auditor, only commenting to management's representation?	e) Making public the engagement letter for the statutory audit?	f) Making public the management letter for the statutory audit?	g) Other.
YES	15	12	14	8	5	3	1
NO	6	8	8	13	15	17	18
Don't know	2	3	1	2	3	3	4
No resp.	6	6	6	6	6	6	6

A majority (15) of respondents think that a more informative auditor's report on the statutory audit of listed companies could be of value to the public in their jurisdiction.

Half of the respondents (12) state that they believe a separate account of the auditor on the scope, conduct and outcome of the audit (audit discussion and analysis) is or could be of value to the public in their jurisdiction.

A majority of the respondents (14) think that an active role of the auditor in the AGM by answering questions is or could be of value to the public in their jurisdiction.

A minority of the respondents (8) only think that a passive role of the auditor in the AGM (only commenting to management's representation if they are not in accordance with the audited annual or consolidated accounts) is or could be of value to the public in their jurisdiction.

Only 5 respondents think that making public the engagement letter for the statutory audit is or could be of value to the public in their jurisdiction and only a few respondents (3) think that making public the management letter for the statutory audit is or could be of value to the public in their jurisdiction.

**Table 22**

*Q25 - Please answer the following statements:*

	a) Extra information (in general) from the auditor to the public on the statutory audit would contribute to the decision-making ability of the public?	b) Extra information (in general) from the auditor to the public would unnecessarily complicate the decision-making ability of the public.	c) Enhancement of the forms of reporting and communication is not feasible as the information the auditor can give is always restricted, because by regulation he is not allowed to give confidential information on the company to the public?
YES	15	5	12
NO	4	13	6
Don't know	4	5	6
No response	6	6	5

A majority of the respondents think that extra information (in general) from the auditor to the public on the statutory audit would contribute to the decision-making ability of the public (15 responses) and would not unnecessarily complicate the decision-making ability of the public (13 responses).

Half of the respondents (12) think that enhancement of the forms of reporting and communication is not feasible as the information the auditor can give is always restricted, because by regulation he is not allowed to give confidential information on the company to the public.

**Table 23**



*Q26 – Are you aware of any discussion on the issue of direct communication of auditors with the public in your jurisdiction?*

YES	2
NO	22
No response	5

In Luxembourg it is foreseen to grant the auditor a legal right to attend the AGM. In the UK the Institute of Chartered Accountants in England & Wales Audit Quality Forum, consisting of representatives of auditors, investors, business and regulatory bodies, issued a paper in January 2007 about Auditor Reporting. The objectives of the Forum were to identify what information shareholders might find useful from audit reports, why they need this information and whether these needs are currently met; and to identify barriers to change and ways to overcome them. The key recommendations are also useful in an International and European context.

### **Conclusion**

The auditor communicates with the public through the auditor's report. The standard format to be used is either ISA 700 or a national standard based on ISA 700. In all responding countries the auditor is allowed or required to communicate with shareholders in the Annual General Meeting. Auditors do not communicate with the public through separate accounts in the audit report (audit discussion and analysis), the management letter or the engagement letter.

A majority of the respondents agree that extra information (in general) from the auditor to the public on the statutory audit could contribute to the decision-making ability of the public, although confidentiality regulations restrict the extra information the auditor could provide. Auditor communication is a subject of public interest. In order to make recommendations the subject should be explored further. CESR is not equipped to study the subject in-depth.