Traditionally the financial audit process has been opaque, operating in a black box environment with only a pass or fail judgement rendered by the auditor on an annual basis.

However, there has been a growing realization that increasing transparency into the audit process could benefit audit committees, investors and other stakeholders.

A number of initiatives are underway internationally to increase transparency into the audit process. This publication outlines two initiatives: enhanced auditor reporting and enhanced audit committee reporting.

Enhanced Auditor Reporting

Since 2012, there has been significant international discussion about the need for auditors to provide more relevant information to investors, analysts and other users of the auditor’s report. These stakeholders have indicated an interest in hearing directly from the auditor, an independent and unbiased source, about the key audit matters considered by the auditor.

In 2014 the International Auditing and Assurance Standards Board (IAASB) issued a suite of new standards around auditor reporting. The new standards aim to provide an auditor’s report that is more informative, insightful, and easy to read. Key changes include:

- A requirement to present the opinion section first.
- A new section to communicate key audit matters.
- Disclosure of the name of the engagement partner.

What are key audit matters?

Key audit matters (KAM) are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. KAM should be the matters that required significant auditor attention, derived from the matters that were communicated to the audit committee. They should be specific to the entity and the audit that was performed.

Potential benefits of enhanced auditor reporting and audit committee reporting:

- Enhanced communication among the auditor, investors and audit committees.
- Increased attention by management, auditors and audit committees on the riskiest and most significant audit issues.
- More relevant and detailed information about significant financial issues for investors.
- Increased accountability for quality financial reporting.
The movement towards enhanced auditor reporting has happened in some jurisdictions, most notably the United Kingdom (where adoption of enhanced auditor reporting has been permitted since 2013), the Netherlands (where a number of audit firms early adopted the International Standard), and France (where expanded reporting has been required for several years).

In the United States, the Public Company Accounting Oversight Board (PCAOB), which sets auditing standards for public companies, has previously issued proposals for enhanced auditor reporting and is expected to determine next steps in this area later in 2016.

Enhanced Audit Committee Reporting

In addition to expanded reporting from the auditor, there has been increased interest in additional transparency from the audit committee. While robust audit committee reporting on oversight of the external auditor is not required in Canada¹, it has recently gained more attention internationally, including in the United States and the United Kingdom.

In November 2013, a group of nationally recognized US corporate governance and policy organizations² issued a call to action³ encouraging improvement in audit committee disclosures to help increase investor confidence through greater transparency about the audit committee’s roles and responsibilities. More recently, in July 2015, the US Securities and Exchange Commission (SEC) published a concept release seeking public comment on possible revisions to audit committee reporting requirements, with specific focus on the audit committee’s oversight of the independent auditor. The SEC is evaluating responses received to determine their next steps in this area.

Additionally, in order to measure progress in the area of audit committee disclosures, an annual “Audit Committee Transparency Barometer” has been published jointly by the Center for Audit Quality and Audit Analytics in the US. This report is an effort to gauge how public company audit committees approach the public communication of their financial reporting oversight activities by measuring the robustness of proxy disclosures among companies in the Standard & Poor’s (S&P) Composite 1500. The 2015 Transparency Barometer⁴ showed increased growth in the percentage of S&P 500 companies disclosing information in several key areas of external auditor oversight, including:

- External auditor appointment.
- Engagement partner selection and rotation.
- Audit firm compensation.
- Criteria for audit firm evaluation.
- Supervision of the external audit firm.

¹ NI 52-110 requires some disclosure as outlined in Form 52-110F1 Audit Committee Information Required in an AIF
² Including the National Association of Corporate Directors; the Association of Audit Committee Members, Inc.; The Directors’ Council; Tapestry Networks; NYSE Governance Services, Corporate Board Member; and the Center for Audit Quality
⁴ http://www.thecaq.org/reports-and-publications/audit-committee-transparency-barometer
In the UK, the UK Corporate Governance Code (Code) requires, among other items, the audit committee to report how it has discharged its required responsibilities. Auditors are also required to read what the audit committee has reported and comment by exception on significant issues if they are of the view that they have not been reported on appropriately.

The intent of the Code is to promote better engagement between investors and companies by improving investors’ understanding of the audit committee’s role. While audit committee reporting is still in the early stages, experience in the UK suggests that there is potential for this type of reporting.

**Final Words**

Each of these transparency initiatives aims to provide more information to investors and other stakeholders to enhance conversations among interested parties and ultimately increase confidence in financial reporting. We encourage investors and other users to learn more about these topics and provide their perspectives to ensure that their needs are being met.

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Excerpt from the UK Corporate Governance Code (September 2014), section C.3.8

A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.

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