AccountancyAge

Scope of auditors' report to be extended to include risk

by Richard Crump 05 Feb 2013

AUDITORS will be required to warn investors about risks within the companies they audit as part of a "step change" in the way audit reports are structured proposed by the FRC.

In response to criticism that auditors' reports are uninformative, the reporting watchdog has launched a consultation to extend their scope to include a commentary of the "risks of material misstatement" identified by the auditor.

As part of the changes, which could force auditors to flag risks that differ from those disclosed by company directors, auditors will be required to explain how they applied the concept of materiality – which relates to the importance of transactions, balances and errors contained in the financial statements – and summarise how the audit scope responded to company risks.

Nick Land [*pictured*], chairman of the FRC's audit and assurance council, said the new rules would provide a "step change from the traditional binary pass/fail model of audit report".

"Such reports have increasingly been criticised as being uninformative by investors, and other users of financial statements. The proposals ... 'close the circle' by requiring the auditor to disclose information about the audit, within the auditor's report itself," Land said.

The proposed changes build on modifications made by the FRC to board and auditor reporting last September, requiring the auditor to communicate information to the audit committee about significant audit judgments and to report by exception if the board's disclosures do not, in its view, appropriately address the matters it communicated.

The consultation period ends on 30 April 2013.