

**IAASB CAG PAPER**

**IAASB CAG Agenda (September 2011)**

**Agenda Item H.1**

**Auditor Reporting—Report Back**

**Auditor Reporting—Report Back**

**March 8-9, 2011 CAG Discussion**

- Below are extracts from the draft minutes of the March 2011 CAG meeting,<sup>1</sup> and an indication of how the IAASB Working Group (WG) or IAASB has responded to the Representatives’ comments.

Representatives’ Comments	Working Group/IAASB Response
<b>THE INFORMATION GAP</b>	
<p>Mr. Koktvedgaard, as the Rapporteur for the CAG WG, noted that the draft CP assumed the reader would be familiar with the concept of an “information gap” versus the broader “expectation gap.” He suggested that the use of an illustration to show how these concepts were inter-related, and focus the reader’s attention on the narrower issue of the information gap that is addressed in the CP, would be helpful.</p>	<p>Point accepted.</p> <p>Mr. Montgomery acknowledged that the CP assumes readers would be somewhat familiar with the concept of the “information gap,” as well as the work being done by IOSCO and the EC, and agreed that this assumption may need to be reconsidered.</p> <p>In finalizing the CP, the IAASB agreed to address the need to further explain the concept of the “information gap.”</p> <p><b><i>See Diagram 1 and paragraphs 12 (b) and 18–24 of the final CP.</i></b></p>
<p>Mr. Koktvedgaard noted that the CAG WG agreed with the IAASB WG’s position that it was necessary to assume the scope of the audit would not be changed in order to set boundaries to evaluate the requests for additional information to be provided by the auditor. Mr. Johnson cautioned that, due to the changing environment, it is likely that this position may need to be reconsidered as expectations regarding the scope of the audit and the role of the auditor change, for example, as highlighted in the EC Green Paper.</p>	<p>Point accepted.</p> <p>In exploring options for change in auditor reporting, the CP acknowledges that some options can be accomplished within the existing corporate financial reporting model and current scope of the financial statement auditor while other options are premised on the need for accompanying change(s) to the existing corporate reporting model and/or relevant law or regulation. Diagram 2 illustrates how the sections within the paper relate to the current and possible future states. The IAASB will continue to monitor developments in relation to the EC Green Paper and others in relation to changing</p>

<sup>1</sup> The minutes will be approved at the September 2011 IAASB CAG meeting.

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	<p>expectations.</p> <p><b>See Diagram 2 and paragraph 35 of the final CP.</b></p>
<p>Mr. Kocktvedgaard advised that the paper should also explore the question of who the users of the auditor's report are and whether different types of users had different expectations of the auditor's report. For example, some users (like the audit committee) could gain access to privileged information via other channels of communication, while an investor may be more reliant on the auditor's report to provide the necessary information. He suggested that an illustration in this regard would be useful to show the types of communication that might be requested or expanded to address the perceived information gap, including written communication via the auditor's report and oral communication to the General Assembly. Mr. Hansen noted a similar view that private company investors may have greater access, while public company investors' needs may not be met simply by the auditor reporting more to the audit committee.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery noted the references were intended to be generic but further stage-setting about both the broader groups of users and those more vocal in expressing their concerns for additional information might be helpful.</p> <p>The CP acknowledges that the IAASB is consulting across a broad range of users globally to better understand the extent to which these views are held for audits of financial statements of various types of entities and across different jurisdictions, and to explore options for change that may help achieve reporting that better meets users' information needs, thereby to enhance the value and relevance of auditor reporting. Feedback is being sought from different groups of users of audited financial statements, as well as from preparers, auditors and regulators. The IAASB believes that obtaining a better understanding about views on the issues raised in the CP is an important pre-requisite to considering possible improvements in auditor reporting. In addition, the paper notes that some types of users have been forthcoming in their views on auditor reporting (large investors and financial analysts in particular), while other users may or may not share these concerns or indeed could have other concerns that have not yet been identified.</p> <p>While the final CP does not include the suggested diagram, Question 2 solicits views on which classes of users are most affected by the information gap and the CP also</p>

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	<p>acknowledges that smaller entities typically have a narrower range of users that already may be able to obtain additional information about the entity through ongoing interactions with management.</p> <p><b>See the Preface, paragraphs 25–29 and Question 2 of the final CP.</b></p>
<p>Mr. Hallqvist was of the view that the IAASB should consider the equity investors as the primary users of the auditor's report, and that their main focus would be to understand the challenges in the auditing environment, for example if there are conflicts of interest due to inadequate segregation of management and governance duties. He noted ICGN's view that focusing the auditor's report first for these users and then considering whether additional paragraphs needed to be added would be preferable.</p>	<p>Point noted, see discussion above.</p>
<p>Mr. James noted that investors have differing views on how an audit report should be prepared and suggested the IAASB should consider whether there should be a difference in the approach to the auditor's report based on the type of investor – for example, a single shareholder, state owned enterprise, or large entity.</p>	<p>Point noted.</p> <p>Question 2 solicits views on which classes of users are most affected by the information gap. As the IAASB considers further actions in response to comments on consultation, it can consider this matter further.</p> <p><b>See Question 2 of the final CP.</b></p>
<p>Mr. Roussey cautioned that the requests for auditor's insight into the quality of an entity's governance, the relative degree of conservatism or aggressiveness in its accounting practices and the financial health of the entity would be very difficult to assess, and care should be taken in the draft CP not to imply that auditors should or would be able to report on these matters. Mr. Koktvedgaard noted that, in order to consider whether it would be possible to do so, investors would need to be asked to explain the framework under which such information could be measured. Mr. Roussey described work that he had done previously with a colleague to develop a model</p>	<p>Point accepted.</p> <p>The areas Mr. Roussey notes continue to be highlighted as areas about which some have suggested the auditor should share insights and perceptions, but additional language has been added to the CP to note that it is generally recognized that the auditor is not responsible, and should not take responsibility, for disclosure of information about the entity. It also highlights the challenges of reporting on matters that are not disclosed by the entity itself, including the potential need for the development of suitable</p>

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<p>for US publicly traded companies to predict bankruptcies, but noted any such models become obsolete as financial reporting standards change.</p>	<p>criteria to enable additional reporting by the auditor on an objective, transparent and consistent basis.</p> <p><b><i>See paragraphs 62–64 and 72–74 of the final CP.</i></b></p>
<p>In Mr. Kocktvedgaard's view, requests from investors for this type of additional information have come about due to a general mistrust in the audit and if this is the case the issue may not be overcome by more communication. Mr. Kuramochi noted that IOSCO received similar feedback in its consultation, as investors were of the view that an unqualified opinion does not adequately differentiate the quality of the audit. He reported that many investors responding to the IOSCO consultation noted that during the financial crisis a number of companies went bankrupt, while the auditor's report on these companies did not indicate a going concern issue. Because of this, investors questioned whether the auditor was appropriately responding to assessed risks at the entity.</p>	<p>Point taken into account.</p> <p>The CP notes the impact of the global financial crisis and the resulting request for more transparency about the entity and its financial statements, particularly key financial reporting risks and how they are being addressed, as well as about the audit performed, including key areas of audit risk. Section C of the paper further addresses requests for the auditor to provide increased information about the audit, and provides the example of the "justification of assessments" in France as a means of complementing the current pass/fail nature of the auditor's report and enhancing the communicative value of the auditor's report even when the auditor's report is unqualified.</p> <p><b><i>See paragraphs 5 and 22 and Section C, paragraphs 62 –71, of the final CP.</i></b></p>
<p>Mr. Kocktvedgaard noted that one member of the CAG WG was of the view that the IAASB should consider work being performed in the UK before advancing its own work in this area.</p>	<p>Point noted.</p> <p>The IAASB WG is closely monitoring developments in the UK and other jurisdictions, and work being undertaken by other stakeholders. The IAASB will be updated on the work of these other stakeholder groups at its December 2011 meeting as it considers proposed actions to be taken in relation to auditor reporting, and the appropriate timeline for these actions.</p>

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<p align="center">AUDITOR COMMENTARY ON MATTERS SIGNIFICANT TO USERS' UNDERSTANDING OF THE AUDITED FINANCIAL STATEMENTS, OR OF THE AUDIT</p>	
<p>Mr. Koktvedgaard noted the risk that users of the auditor's report may confuse reporting issues (for example, those under generally accepted accounting principles), and audit findings (for example, communication on the audit), a point which is to an extent acknowledged in the draft CP but could be made more clear. Mr. Upton agreed, noting that education of users may be necessary to ensure the respective roles of financial reporting standards and auditing are understood, in particular as information is requested about corporate governance, auditor's findings, and financial reporting disclosures. Mr. Upton also suggested that consideration of the role of the integrated reporting initiative was necessary in looking at the balance of information requested and who should be responsible for providing such information.</p>	<p>Point taken into account.</p> <p>The CP acknowledges that high-quality financial reporting depends on a jurisdiction's financial reporting infrastructure put in place for that purpose and notes that the legal and regulatory environment, including reporting rules and policies related to corporate governance, the requirements of the applicable financial reporting framework, and standards governing behavior of participants in the financial reporting supply chain are all interrelated inputs to corporate financial reporting.</p> <p>While the concept of integrated reporting is not directly mentioned in the draft CP, the IAASB WG acknowledges the growing importance of integrated reporting but recognizes that the environment regarding such reporting is evolving. Accordingly, in recommending actions to the IAASB in its future strategy and work program, the IAASB Steering Committee believes it best that the IAASB study the issues and developments carefully through the establishment of a strategy working group before committing resources to any standard-setting actions. These issues and developments can then be considered by the IAASB WG on auditor reporting to the extent they are relevant to the project.</p> <p><b>See paragraphs 6–9 and 23–24 of the final CP.</b></p>
<p>Mr. Ratnayake noted his view that, due to the increasing use of fair value measurements, the draft CP should highlight the need for the auditor to provide views as to what extent components used in models to</p>	<p>Point taken into account.</p> <p>While the CP does not specifically refer to auditor views on the use of models in</p>

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<p>determine fair value are not market-based, and the impact that this could have on the financial position on the entity. Mr. Koktvedgaard noted that, while he agreed this was useful information for investors, the disclosures should be driven by the financial reporting framework rather than provided by the auditor. Mr. Johnson suggested that enhanced auditor commentary on matters included in the audited financial statements would assist the users in understanding the audit risks.</p>	<p>determining fair values, it acknowledges requests for the auditor's perspectives on key assumptions, increased information about the audit, and auditor insights about the entity or the quality of its financial reporting.</p> <p><b>See paragraphs 23–24 and Section C of the final CP.</b></p>
<p>Mr. Cassel appreciated the balance in the paper between the static and dynamic aspects of auditor reporting. He noted that criticism of auditors and rapid changes in IFRS have led to the demand for additional information and the current scope of the audit may be taken for granted. He supported the view in the draft CP that it is important to distinguish between the role of the preparer and the role of the auditor when evaluating who should provide additional information requested by users. Mr. Johnson echoed this view, noting his concern that some of the information being requested should be provided by the entity, not the auditor. In his view, there is a role for the accounting profession to be one of the leaders in this areas but input from others will be critical to close the expectation gap.</p>	<p>Point accepted.</p> <p>Mr. Montgomery agreed, noting that while the CP questions whether the auditor should be providing information that has not otherwise been disclosed by the entity, the explanation of the respective responsibilities of management, those charged with governance and the auditor may need to be explained in greater detail. Mr. Montgomery also noted that the IAASB believes additional education is needed on the role of the auditor, and the meaning of the audit, which has been factored into the IAASB's future work program.</p> <p>The CP addresses Mr. Johnson's concern and describes the potential adverse consequence of confusing users by creating dueling sources of information about the entity.</p> <p><b>See paragraphs 24, 64, and 73–74 of the final CP.</b></p>
<p>Mr. Baumann noted that the PCAOB's work to date has highlighted frustrations among investors with today's auditor reporting. He explained that investors want the auditor's report to be meaningful to them, and cite difficulties with the current format because they believe there is great variability in what is meant by the statement in the auditor's report that the financial statements "present fairly." Mr. Baumann also explained that investors expect that auditors have a view as to how aggressive entities are with respect to</p>	<p>Points noted.</p> <p>The areas Mr. Baumann notes continue to be highlighted as areas about which some have suggested the auditor should share insights and perceptions. Additional language has been added to the CP to note the IAASB's current view that it is generally recognized that the auditor is not responsible, and should not take responsibility, for disclosure of information about the entity. It also highlights</p>

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<p>accounting policies, for example, and recognize that such matters are already being addressed by auditors in the communication with those charged with governance. In addition, he noted that many investors do not support the view that auditors should not be able to provide information that the entity is not willing to provide. Mr. Baumann explained that other groups in the US, such as the Center for Audit Quality and the 2008 Treasury Advisory Committee have highlighted similar matters, prompting the PCAOB to undertake a project in relation to auditor reporting. He reported that the PCAOB will discuss the results of their research and outreach in a public meeting on March 22 and also intends to issue a concept release on the topic in the second quarter of 2011.</p>	<p>the challenges of reporting on matters that are not disclosed by the entity itself, including the potential need for the development of suitable criteria to enable additional reporting by the auditor on an objective, transparent and consistent basis.</p> <p>The IAASB recognizes the importance of aligning policy development and future standard-setting activities on auditor reporting to achieve a consistent basis for auditor reporting worldwide. As part of its ongoing outreach activities, the IAASB has expressed desire for ongoing discussion with the PCAOB with a view to being able to align work on the topic going forward as far as possible.</p>
<p>Mr. Ratnayake noted that the matters outlined in the draft CP are consistent with messages IFIAR has heard from investors in the course of its outreach.</p>	<p>Point noted.</p>
<p>Mr. Gutterman noted the reference in the paper to requests for additional information to be provided on an entity's "risk management," and noted the term has different meanings to different stakeholders. He suggested the CP could be clearer on whether the intent was to focus on enterprise risk management or other forms of risk management and what the role of the auditor should be with respect to reporting on each.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery explained that the intent of the material in the CP in this regard was to highlight areas that would require a change in the scope of the audit in order for the auditor to be in a position to report. In his view, in the future auditors may be asked to provide additional assurance on areas such as risk management in order to stay relevant in the current environment.</p> <p>Section E of the CP now explains the calls for other assurance or related services on information not within the current scope of the financial statement audit and cites enterprise-wide risk management as an area on which auditors may be requested to be involved.</p> <p><b><i>See Section E, paragraphs 87 – 90, and</i></b></p>

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	<b><i>Questions 14 – 15, of the final CP.</i></b>
<p>Mr. James noted that a number of the areas such as corporate governance, risk management, internal control, and key performance indicators were mentioned in Ms. Bastolla's earlier presentation about where internal auditors are likely to concentrate their efforts. He suggested there may be a role for internal auditors to report to the board and audit committee on these matters, and then the board and audit committee could report publicly. Ms. Bastolla agreed.</p>	<p>Point noted.</p> <p>Should the IAASB determine future action is necessary with regard to the suggestion in Section D about an enhanced corporate governance reporting model, this point will be further considered.</p> <p><b><i>See Section D of the final CP.</i></b></p>
<p>Mr. Baumann noted that investors use the term "risks" loosely in asking for the auditor to include additional information. In his view, it is important to distinguish what these risks are, since auditors can provide more commentary on the assessed risks of material misstatement and audit risks but are not necessarily trained to provide an assessment of business risks.</p>	<p>Point taken into account.</p> <p>The CP notes that, in the course of performing the financial statement audit, the auditor obtains or develops information about key areas of risk of material misstatement in the financial statements, critical accounting estimates and management judgment, as well as management's selection and application of accounting policies.</p> <p><b><i>See paragraphs 55 and 62 of the final CP.</i></b></p>
<p>Mr. Hansen noted the discussion of the US Treasury Advisory Committee suggested more narrative was needed about estimates, judgments, uncertainties, sufficiency of evidence and the significant risks that the auditor addressed. However, he recognized the need to consider whether certain of this information was better disclosed by management. Mr. Hansen also suggested that there may be a need for both management and the auditor to communicate more explicitly about error or fraud.</p>	<p>Point accepted.</p> <p>The CP notes that some are of the view that the auditor's report could say more about the respective responsibilities of management and of the auditor (for example, regarding fraud, going concern, risk, non-financial disclosures or auditor independence). The CP also acknowledges that it has been suggested that providing an expanded description of the auditor's responsibilities for the detection of fraud would be especially helpful in addressing the expectations gap.</p> <p><b><i>See paragraphs 14 and 40 of the final CP.</i></b></p>
<p align="center"><b>POSSIBLE CHANGES TO THE STRUCTURE, FORMAT AND CONTENT OF THE STANDARD AUDITOR'S REPORT</b></p>	
<p>Mr. Hansen noted that the draft CP seemed to suggest</p>	<p>Point taken into account.</p>

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<p>the view that the binary pass/fail model currently in use for the auditor's report remained appropriate. In his view, additional discussion in the CP might be useful.</p>	<p>The IAASB WG has heard views that endorse the benefits of the current so-called “binary” auditor's opinion, but also views that state this form of opinion is no longer sufficient on its own to address users' information needs.</p> <p>Section C of the paper addresses requests for the auditor to provide increased information about the audit, and provides the example of the “justification of assessments” in France as a means of complementing the current pass/fail nature of the auditor's report and enhancing the communicative value of the auditor's report even when the auditor's report is unqualified.</p> <p>The IAASB anticipates that these differing views will be reflected in responses to the CP. The IAASB's consideration of those responses may provide more information about the perspectives of a wider range of users and other types of stakeholders that the IAASB can use to form a view about where the balance of user opinion lies.</p> <p><b><i>See Section C, paragraphs 62 –71, of the final CP.</i></b></p>
<p>Mr. Kuramochi reported on IOSCO's experience with their consultation on the topic. Responses from investors to their consultation included requests for additional information, with the view that no additional cost would be incurred by the auditors in providing such information because the auditor would only be reporting on work that had already been done in the current scope of the audit. However, he noted that auditors did not believe additional reporting would be cost-neutral. Mr. Kuramochi therefore suggested the IAASB could work to facilitate additional discussion between auditors, entities and users of the auditor's report to evaluate the costs and benefits before requiring additional reporting by auditors. Mr. Hansen noted his view that the implication of having</p>	<p>Point accepted.</p> <p>Questions 16–18 of the CP ask respondents to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explore in the CP.</p> <p>When suggesting additional commentary by the auditor may be necessary, the CP acknowledges the potential for conflict with provisions of national law and regulation concerning privacy, confidentiality, or market disclosure rules, and the additional liability exposure that would arise for the auditor.</p> <p><b><i>See paragraphs 74 and 91–99, and</i></b></p>

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<p>to report triggers additional procedures by the auditor. Mr. Pannier supported this view and echoed the point that it would be useful to explore the cost-benefit implications of each proposal. He also suggested that the matter of legal liability should be mentioned.</p>	<p><b><i>Questions 16–18 of the final CP.</i></b></p>
<p>Mr. Uchino expressed the view that investors may rely more on reports from equity analysts rather than the auditor's report. He questioned whether it would be possible to make changes to the auditor's report that would assist investors in deciding whether to invest in a particularly entity if the scope of a financial statement audit did not change.</p>	<p>Point accepted.</p> <p>In exploring options for change in auditor reporting, the CP acknowledges that some options can be accomplished within the existing corporate financial reporting model and current scope of the financial statement auditor while other options are premised on the need for accompanying change(s) to the existing corporate reporting model and/or relevant law or regulation. Diagram 2 illustrates how the sections within the paper relate to the current and possible future states.</p> <p><b><i>See Diagram 2 and paragraph 35 of the final CP.</i></b></p>
<p>Mr. Koktvedgaard noted the illustrations in Appendix 1 highlighting possible areas of changes to the standard auditor's report were very helpful as a way of bringing things forward for respondents to consider.</p>	<p>Support noted.</p>
<p>Mr. Peyret explained that within the French auditor's report there is a "justification of assessment," in which the auditor substantiates and explains their assessment. In his view, doing so moves the auditor's report away from boilerplate language and also illustrates the auditor's focus on significant matters, such as intangible assets.</p>	<p>Point accepted.</p> <p>Mr. Montgomery noted that it is understood that the French model has led to enhanced dialogue between management and auditors, thereby helping to improve financial reporting quality and the audit process. The CP explicitly discusses this model<sup>2</sup> and asks respondents for their reactions to it as a way to provide additional auditor commentary.</p> <p><b><i>See paragraphs 66–71 and Question 9 of the</i></b></p>

<sup>2</sup> The final CP includes reference to the report obtained from an independent survey of auditor reporting in France. The report has been published by the CNCC, and is available electronically at [www.cncc.fr/download/footprintconsultant\\_reportstudy\\_va\\_cncc\\_fev2011.pdf](http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf).

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	<b><i>final CP.</i></b>
<p>AN ENHANCED ROLE FOR THE AUDIT COMMITTEE REGARDING FINANCIAL REPORTING AND THE EXTERNAL AUDIT</p>	
<p>Mr. Cassel noted there may be a role for the audit committee to disclose more information (for example, about accounting estimates) and for the auditor to provide commentary on such information.</p>	<p>Point accepted.</p> <p>Mr. Montgomery noted that the IAASB WG agrees with this point, however, it acknowledges that there may be some challenges in this approach because corporate governance models are not the same in every jurisdiction. He explained that the idea of the audit committee providing more information to the public, accompanied by more detailed reporting by the auditor to the audit committee, and possibly assurance on the report issued by the audit committee, needs to be considered as part of the debate, although it may be a longer-term option.</p> <p><b><i>See Section D, paragraphs 75–86, and Questions 11–13 of the final CP.</i></b></p>
<p>Mr. Pickeur expressed the view that the diagram of the audit committee reporting model in the draft CP may not be typical in most corporate governance frameworks, because he did not believe that the audit committee would have the right or expectation to report to the external stakeholders. Rather, he was of the view that the audit committee would report solely to the entity's board. Mr. Hallqvist agreed. Ms. de Beer noted that this depended on the jurisdiction, as audit committees in South Africa have a reporting responsibility directly to the shareholders insofar as auditor independence is concerned.</p>	<p>Point taken into account.</p> <p>The CP now notes that, even though different corporate governance models are in place in different jurisdictions, the existing interaction between those charged with governance of an entity and the auditor offers a sound platform for exploring further enhancements of corporate governance reporting. Diagram 3 is intended to suggest one way in which such a model might work, in line with the proposal contained in the consultation initiative undertaken by the Financial Reporting Council in the United Kingdom.</p> <p>As mentioned above, the IAASB WG recognizes the importance of extending the discussion on exploring ways to enhance auditor reporting to include consideration of how other participants in the financial</p>

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	<p>reporting supply chain, including those charged with governance, may work with auditors towards achieving a model of entity reporting and auditor reporting that would achieve better outcomes for users in terms of meeting their wider information needs.</p> <p><b>See paragraph 80 and Diagram 3 of the final CP.</b></p>
<p>Mr. White noted there may be inherent tension in the diagram of the audit committee reporting model if the audit committee is asked to report on oversight of financial reporting and external audit, and then the auditor is asked to report on the reasonableness and completeness of the audit committee's report, as this would seem to require the external auditor to be reporting on its own work.</p>	<p>Point taken into account.</p> <p>The CP suggests that the auditor's communication would be in relation to the audit committee's description of the key interactions with the external auditor.</p> <p>In addition, the CP asks for input as to what challenges may be faced in promoting its acceptance, and the point raised by Mr. White is considered to be one of these challenges.</p> <p><b>See paragraph 83 and Question 12 of the final CP.</b></p>
<p>Mr. Fleck clarified that the UK model proposes that there is a greatly expanded report by the auditor to the audit committee or the board that sets out the rationale as to why the auditor is satisfied that the entity's financial accounts give a true and fair view. Doing so then enables the audit committee or board to identify critical factors in the entity's financial report and issue the financial statements. In his view, this is a two-step process rather than "two-way communication" as detailed in the diagram in the draft CP. The second step is for the auditor in his report to comment on the audit committee or board's report to ensure that all critical matters have been reported in the financial statements as a whole. Mr. Fleck noted that the benefit of this model is that it prevents the auditor from assuming a quasi-management responsibility by reporting what management should be reporting, in particular on matters such as internal control, accounting policies, and other critical judgments. Mr.</p>	<p>Point taken into account.</p> <p>The CP has been revised to explain the UK model in more accurate terms as indicated by Mr. Fleck.</p> <p><b>See paragraph 84 of the final CP.</b></p>

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Fleck noted this model could work when either the audit committee or the board has this reporting responsibility. Mr. Baumann agreed.	
<b>OTHER MATTERS</b>	
<p>Ms. Lang and Mr. Bluhm supported the way in which the draft CP highlighted the issues relating to SMPs. Ms. Lang suggested the IAASB should work to ensure additional burden is not created on SMPs. Mr. Bluhm noted that consideration may need to be given to the fact that SMEs may not have audit committees or governance structures as envisioned in the draft CP. Mr. Koktvedgaard suggested this should be explicitly stated in the CP. However, Mr. Bluhm cautioned the IAASB against moving in a direction that the audit report for a private company might suggest that an audit for a private company is to some lesser scale.</p>	<p>Points accepted.</p> <p>Mr. Montgomery agreed, and noted that the intent of the remarks in the draft CP were to indicate that ongoing dialogue with the SMP community would be important in this regard, as would dialogue with INTOSAI and public sector entities whose reporting might be driven by different types of regulations.</p> <p>The CP suggests that an enhanced model of corporate governance reporting, whether to the audit committee or others charged with governance, could provide a platform for further reporting to users of audited financial statements, but also notes that differences in national corporate governance models may mean it may not always be practicable to use the model.</p> <p>Finally, the CP poses questions specifically to solicit responses on whether changes in auditor reporting are needed for audits of all types of entities, or only listed entities, and whether the benefits, costs, potential challenges and other implications of change are the same for all types of entities.</p> <p><b><i>See paragraphs 27–29, Section D paragraphs 75–86, and Questions 3 and 17 of the final CP.</i></b></p>
<p>Mr. Waldron and Mr. Hansen questioned what the IAASB was doing to coordinate efforts with the PCAOB, EC, FRC and others exploring similar issues. Mr. Hansen expressed the view that the IAASB should work to minimize unnecessary differences between the models that are being developed. Mr. Robberecht</p>	<p>Point accepted.</p> <p>Mr. Montgomery noted the IAASB WG has been monitoring the direction of these groups so as to stay aligned to the extent possible. The IAASB will be updated on the work of these other stakeholder groups at its</p>

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cautioned the IAASB to not move too quickly or in a divergent path from the EC and PCAOB in light of the importance of the topic and the changing landscape.	December 2011 meeting, as it considers the responses to the CP and possible future actions to be taken in relation to auditor reporting, including in relation to standard-setting, and the appropriate timeline for such actions.
Mr. Pickeur was of the view that the EC Green Paper has more of a focus on the audit committee rather than auditing. Mr. Robberecht explained the spirit of the Green Paper was to highlight the importance of communication on every level between stakeholders, external auditors, internal auditors and audit committees. While the Green Paper did express the view of the need to strengthen the audit committee, responses to it also highlighted the need for added value in the auditor's report. Mr. Robberecht noted that the ISAs cannot impose requirements on management or the audit committee. Mr. Robberecht informed the CAG that the EC is planning to issue another Green Paper explicitly addressing corporate governance.	Point noted.  As explained during the March 2011 CAG meeting and in the context of the IAASB's future strategy and work program, the IAASB will continue to monitor the EC's activities in relation to the Green Paper to determine whether the IAASB needs to take action beyond its current agenda to respond to developments arising from the EC's consultation and possible legislation.
Mr. Pickeur suggested the CP could raise additional conceptual questions to obtain higher-level feedback rather than some of the detailed technical questions included in the draft CP.	Point accepted.  In revising the paper, the IAASB included additional questions to allow respondents to share views on the following: <ul style="list-style-type: none"> <li>• Perceptions of auditor reporting;</li> <li>• Critical issues to narrow the information gap and improve the communicative value of auditor reporting;</li> <li>• Whether there is a necessary distinction between listed vs. non-listed entities in relation to auditor reporting; and</li> <li>• Benefits, costs, other implications of change or potential challenges.</li> </ul> <p style="background-color: yellow;"><b><i>See Questions 1–3 and 16–19 of the final CP.</i></b></p>
Mr. Kocktvedgaard encouraged the IAASB to consider asking respondents whether there are additional	Points accepted.  The CP highlights suggestions about whether

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<p>matters on which the auditor could be asked to report. He also suggested it was unclear whether the IAASB WG considered requests for the auditor to report more on work performed and audit procedures as is done in Germany and Denmark.</p>	<p>the auditor's report could provide increased information about the audit or insights about the entity or the quality of its financial reporting, and gives the example of the auditor's justification of assessments in France. It specifically asks respondents for their views and reactions to the prospect of the auditor doing so.</p> <p>The CP also acknowledges that in certain countries, including Germany and Denmark, national law requires formal reporting between the independent auditor and those charged with governance and that this additional reporting, whereby the auditor provides more extensive information about the audit process and findings, has been suggested as a model of enhanced auditor reporting.</p> <p><b><i>See Section C, paragraphs 54 - 74, paragraphs 78-79, and Questions 8 - 10 of the final CP.</i></b></p>
<p>Mr. Pickeur suggested that IAASB's project on auditor reporting and audit quality should be closely linked.</p>	<p>Point accepted.</p> <p>Mr. Montgomery explained this was the intent, as some users believe additional information provided in the auditor's report will help them in assessing the quality of the audit performed.</p> <p>The CP acknowledges that expanding the auditor's reporting responsibilities, either internally to those charged with governance or externally, may for example increase the auditor's focus on issues critical to users' understanding of the entity. This may in turn enhance perceptions on audit quality.</p> <p>Staff on the projects will continue to liaise as both projects move forward.</p> <p><b><i>See paragraphs 97-99 of the final CP.</i></b></p>

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**Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY**

Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, Issued May 2011 <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0163>