For the attention of Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
New York, New York, 10017
USA

16 September 2011

Dear Sir

Enhancing the Value of Auditor Reporting: Exploring Options for Change

Overview of our key messages

We[1] believe:

- The time is right to significantly enhance auditor reporting.
- Changes should be driven by a clear set of principles to ensure all changes add value and increase relevance.
- Some changes can be made in the shorter term. More radical reforms need to be framed as part of a wider review of the corporate reporting model.
- Public interest will be best served by different standard setters working collaboratively to ensure that, as far as possible, consistent models are developed.

Importance of corporate reporting context

The fall-out of the financial crisis still reverberates around the world. In many ways, the crisis has fundamentally shifted the way the world views the capital market systems. It also highlighted significant shortcomings in the corporate reporting model we use today. To better meet the needs of market-based systems and society as a whole, there is a compelling need to reform the overall corporate reporting model. Developing a relevant and valued reporting model for the upcoming century will require the active engagement and collaboration of many—management, directors, investors, auditors, regulators, policy makers, legislators, as well as standard-setters.

Of all of the information that companies publish, the current audit focuses on reporting at a single point in time on just one element, albeit an important one—the financial statements. As corporate reporting evolves, a more comprehensive assurance model can further enhance the relevance and value of the auditor's role,

[1] This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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which may potentially include opinions that cover other aspects of the entity's reporting. The IAASB can, and should, play a leading role in promoting that debate, and we stand ready to work collaboratively with all interested parties to actively drive this agenda forward.

The IAASB's consultation is framed within the context of today's corporate reporting model. We believe that genuine enhancements in auditor reporting can be made in the shorter term even with that constraint. Such improvements alone will not provide the informational value and greater insights many are seeking and, therefore, we continue to emphasise the importance of longer-term reform of the corporate reporting model. Options proposed that we believe are not practicable in the shorter term—as well as options not yet even considered—may become viable as the wider corporate reporting model evolves.

Why change today's auditor reporting?

Today's audit underpins confidence in financial reporting. Its value rests in the trust investors and others place on the audited financial statements in making economic decisions pivotal to the effective functioning of capital markets.

The audit report is the visible interface between auditors and users and inevitably influences users' perceptions of audit quality and relevance. Users, in particular investors, tell us that the current auditor's report is not meeting their needs as well as it could. They greatly value the auditor's opinion on the financial statements, but they would like more informative reporting—greater insight into the entity's financial reporting and the audit, as well as assurance on other information or matters not within the scope of today's financial statement audit.

The debates on auditor reporting may be loudest in jurisdictions affected most by the recent financial crisis, but we believe that the views of users in those jurisdictions are shared by others around the world. The growing crescendo of voices globally creates the opportunity to make changes and, importantly, fundamental changes. To achieve meaningful change, the norms of law, regulation, corporate governance, business behaviour and other features of market practice within which today's audit model has evolved may all need change to achieve the desired outcome. For example, proposals that would significantly expand the scope of assurance or other auditor association, to areas such as earnings releases, is likely to require consideration of necessary changes to current liability regimes.

The context of auditor reporting

Whilst there are many similarities in corporate reporting, corporate governance and audit frameworks around the world, there are also fundamental differences, including the intended users of the audit report. In some jurisdictions, company law restricts those intended users to existing shareholders, with the financial statements being an integral part of the directors' accountability—stewardship. In others, the focus is on capital market investors more broadly. Still others see an even wider public accountability. These differences, whilst seemingly subtle, can influence perceptions in weighing the relative merits of different options for change in auditor reporting. In the longer run, such differences may not be sustainable.

The auditor's report itself is only part of a broader spectrum of auditor communications. The audit is an interactive process that culminates in an audit report, but includes formal and informal communications with a variety of parties: management, audit committees, boards of directors or supervisory boards, and regulators.

Our focus in this response is on the auditor report or reports that are issued for use by stakeholders (users) external to the entity (public reporting). We have not attempted to define who those users are—it will be a key question if the IAASB is to lead this debate and develop a clearer and consistent global view.

What users tell us they want

- ***Greater insight*** — Whilst the auditor's opinion is valued because it tells them whether or not they can have confidence in the entity's financial statements, users would like auditor reporting to give them greater insight into the audit and the auditor's views on the entity's financial reporting. Their views and priorities vary, but the areas most frequently cited by users include: the auditor's view of the significant accounting judgements made by management in the preparation of the financial statements and/or the areas of significant risk identified in the audit; audit procedures performed related to significant accounting judgements and risks; key audit judgements (for example materiality); matters relevant to the auditor's independence; material weaknesses or significant deficiencies in the entity's controls; and the auditor's view of the quality of the entity's financial reporting, controls, management or governance. Although keen to obtain additional insight directly from auditors, users are generally not interested in formulaic information.
- ***Maintain open dialogue*** — Information on the "behind the closed doors" aspects of the audit is seen as valuable. At least some users have indicated that they would be concerned if this constrained the open dialogue so crucial to audit effectiveness.
- ***Broader assurance*** — Some would welcome expanding the involvement of the auditor to include assurance or other forms of direct auditor involvement with other aspects of an entity's corporate reporting. For example, the preliminary statements of results (e.g., earnings releases); internal controls; additional quantitative performance measures, including non-GAAP financial measures or other key performance indicators (such as industry metrics); and other information in corporate reports, including the directors' commentary or management's report and other corporate governance reporting.

It is important to note that the demand for change in auditor reporting comes predominantly from shareholders of listed/public companies and other public interest entities. Audits, no matter the size of the entity, are intended to provide a similar level of assurance. For that reason, the "core" content of the standard auditor's report and opinion on the financial statement should be the same for all entities. The unique characteristics of ownership and governance of some entities, and the relative cost/benefit, may justify limiting the enhanced or additional reporting to some, but not all, entities.

Our overarching principles for effective auditor reporting

As we evaluated various options for additional reporting, we assessed them against the following principles. We found them to be useful guideposts to identifying constructive changes and avoiding changes that inadvertently do harm.

1. **Changes made to auditor reporting should:**
    - **Maintain or improve audit quality.** Audit quality is paramount and could be negatively affected if auditors were asked to report on matters beyond their competence, or if the proposed solution inadvertently affected the auditor's ability to obtain sufficient appropriate audit evidence.
    - **Enhance the value of the audit to users**. Users should see substantive value from the changes. To be sustainable, they must also believe that the incremental benefits of that additional information exceed the costs involved.
    - **Increase the reliability of information the entity provides in public reports.** Providing assurance on information that was not previously subject to audit/assurance directly affects its reliability. Some of the options may also have an indirect positive impact if they serve to increase the attention that management and those charged with governance pay to those elements of their corporate reporting.

2. **Changes should maintain or enhance the effectiveness of the relationships and interactions of auditors, those charged with governance (e.g., audit committees) and management in the financial reporting process.** The audit model depends on effective communication among the players. Scepticism and challenge are key elements of an audit. Audit effectiveness also depends on the ability of the auditor to have effective communication with and obtain information from management and those charged with governance. The impact of the proposed solutions on the finely balanced interrelationships between auditors, those charged with governance and management needs to be considered so that they don't impede the auditor's ability to obtain sufficient appropriate audit evidence.

3. **Auditor reporting should be sufficiently similar to facilitate users' comparison of the underlying economic reality / state of affairs of different entities**. Any move away from a completely standardised report and opinion will inevitably introduce some variation. Financial reporting and auditing also require significant exercise of professional judgement. To be viable, the solutions proposed must result in information that can both inform economic decisions and contribute to market confidence. Including in auditor reporting information that is subjective or variable (such that two auditors given the same fact pattern and information could come to different conclusions and issue substantively different reports) will not meet this criterion.

4. **Auditor reporting can provide greater insight based on the audit but the auditor should not be an original source of factual data or information about the entity.** Factual data or information about the entity should be reported by the entity, i.e., by management and/or those charged with governance, to avoid blurring the responsibilities of auditors, management and those charged with governance. This is also important to avoid unintentionally confusing investors and disrupting capital markets by providing competing views of the true picture of the entity's underlying financial position and/or performance.

5. **In the shorter term, the adoption of different approaches that achieve the objectives of additional reporting may be necessary.** To the extent possible, the content of the "core" elements and audit opinion on the financial statements should be the same for all audit reports. Some limited accommodation may be needed in circumstances when law or regulation or national auditing standards

dictate particular wording or structure (as is recognised in the ISAs today). For any proposed additional auditor reporting, however, the focus may need to be on the objective or aim of that reporting rather than the way that it must be done because of underlying differences in financial reporting, corporate reporting and corporate governance frameworks.

Our vision of responsive changes in auditor reporting

Our vision of enhanced auditor reporting in the context of today's corporate reporting model retains what is working well but makes it better by:

- Highlighting the significant judgements management has made in preparing the financial statements, which are key risks addressed in the audit.
- Expanding auditor involvement to provide additional assurance on other aspects of an entity's corporate reporting (where benefit of that additional assurance is agreed to exceed the costs).
- Clarifying certain aspects of the audit and auditor's responsibilities, including the auditor's independence and how materiality is applied.

A focus on significant judgements

It is understandable that perhaps the most commonly voiced demand by many users is for auditors to provide greater insight into the significant judgements management has made in preparing the financial statements, as these would be key risks that the auditor addresses in the audit. The nature of financial reporting has evolved over the past decade in response to the greater complexity in business models and transactions, sources of risk, and uncertainty. Fair value measurements, estimates and valuations in financial reporting—all of which may have inherent measurement uncertainty and significant disclosure requirements—require management to exercise significant judgement.

Auditor reporting could do more to highlight to users the financial reporting judgements the auditor views as significant to an understanding of the entity's financial statements. We support each of the following options.

- **Emphasis of matter paragraphs in the auditor's report—'shining the light on judgements'.** The auditor's report could help users navigate the financial statements by directing the reader to the disclosures in the financial statements that the auditor believes describe the most significant judgements management has made. The "justifications of opinion" required in auditor reports in France do this and anecdotal evidence suggests that "shining a light" on these judgements has resulted in improvements in those disclosures. In those jurisdictions where management commentary regarding those judgements is included outside the financial statements in the director's commentary or management's discussion and analysis (MD&A), consideration should be given to expanding the concept of Emphasis of Matter paragraphs to refer to those disclosures as well.

  To achieve comparability in auditor reporting across entities, the "rules of the game" would need to be defined so that emphasis of matter paragraphs can be applied consistently.

  Some users would also like to know the audit procedures performed in these areas of the financial statements. There are a number of practical difficulties in doing so. In particular, we are concerned that identifying only certain procedures, in the absence of sufficient context regarding the audit approach and methodology could exacerbate, rather than reduce, misconceptions of audits. For example, reports to audit committees run into tens of pages, and even then are seen by some to be too summarised. They are also just one part of the dialogue between auditors and those charged with governance that provides necessary context. There is a danger that in trying to distil the complexity and nuance of this dialogue, its meaning would be lost. The descriptions of audit procedures could easily become either too technical or boilerplate descriptions of "standard" procedures. Disclosures of procedures are currently made as part of the auditor's justification of opinion in France, but there is evidence to suggest that the descriptions provided are seen as only providing limited incremental value to users.

- **Separate assurance on management's discussion of significant financial reporting judgements.** In jurisdictions in which management's discussion of their significant financial reporting judgements is not contained in the financial statements but is elsewhere in the annual report, rather than just direct readers' attention to that discussion, auditors could separately report (i.e. express an opinion and provide assurance) on those specific aspects. Indeed, assurance on disclosures that are important to users could lead to improvements in management's process for their preparation and the disclosures themselves. It would, however, require a clear framework for management's disclosures.

- **Enhanced audit committee reporting and assurance.** Audit committees could report publicly on their oversight of the entity's significant financial reporting judgements and audit thereon. This reporting would provide transparency about how the audit committee reviewed and was satisfied with the audit approach and methodology applied. This has the advantage of demonstrating the relevance of those committees to users and retains the traditional responsibilities of the individual parties. As audit committees oversee the auditors, it would be inappropriate for the auditor to provide assurance on all aspects of the audit committee report. Auditors could, however, report on whether the description of the dialogue with the auditors regarding the significant financial reporting judgements is a fair and balanced reflection. Where there is limited, if any, public reporting by audit committees, this option would be unlikely to be viable in the short term.

Although these options are not extending the auditor's remit beyond management's reporting of its significant financial reporting judgements, additional costs involved include requiring standard setting projects to amend or develop new auditor reporting requirements.

Some users would like auditors' views on the entity, the quality of its management or corporate governance, or the quality of its financial reporting (e.g., how aggressive or conservative it is). We believe that the practical challenges in making this reporting meaningful are very significant and onerous. The subjectivity and lack of consistency in application by different auditors given similar fact patterns would do more harm than good to capital markets. We believe that focussing on significant judgements is a better and more productive step at this time.

Expanding auditor involvement

Users have expressed an appetite for auditor involvement with a wide range of other information reported by entities, both in content and in how it is communicated. Such involvement could serve to improve the quality and reliability of information communicated. There are constraints, including the competencies of auditors (which can, of course, evolve over time). The following areas are worth exploring with users as areas in which auditors could provide additional assurance and are achievable in the relative shorter term:

- **Non-GAAP financial information.** Entities often report non-GAAP financial information, such as calculations of "core" or "underlying" earnings or capital ratios for financial services companies. Some are readily reconcilable and generally consistent with financial information in the entity's financial statements and auditor involvement with those measures may be an obvious extension of the audit. Different levels of assurance could be considered for different types of non-GAAP financial measures, or limiting auditors' involvement to performing specified procedures. Appropriate benchmarks and sufficiently robust criteria would need to be developed.

- **Earnings releases.** Investors place significant reliance on earnings releases. We support exploring how auditors might provide some assurance in this area. It would require appropriate legal frameworks and professional standards being in place and there may also be practical challenges to achieving consistency given differences in reporting practices for earnings releases around the world.

- **Internal control over financial reporting.** In some jurisdictions today, auditors provide assurance on entities' internal control over financial reporting. If there is appetite among investors for additional reporting on internal control over financial reporting, we believe this is best met by providing separate assurance on it. Experience shows that this would require appropriate reporting framework(s) for entities, as well as auditing standards; it is, therefore, not an insignificant undertaking for entities or auditors. For that reason, users need to believe that the perceived benefits outweigh the costs.

Other areas in which additional auditor assurance could be explored include key performance indicators related to non-financial measures of entities' performance, certain aspects of entities' corporate governance arrangements and risk management systems or other internal controls. These are longer term propositions, as they will require wider changes to the corporate reporting model and the development of frameworks for reporting by management, including criteria or benchmarks, as well as consideration of the nature of auditor reporting that would be cost effective and meaningful.

Each of these options would be a step change from today's audit and would involve increased cost—which could be significant. Therefore, users need to be convinced that the benefits of the additional information exceed the costs. In weighing them, there is also an opportunity cost to be factored in, as doubt about the reliability of the entity's financial and corporate reporting bears its own cost.

Developments in integrated reporting models also need to be monitored closely. Many view integrated reporting as a solution that can address more comprehensively a broader range of information needs of users. Fundamental redesign of corporate reporting and assurance is clearly a longer term goal, but the complexities involved should not dissuade action.

Clarifying certain aspects of the audit and auditor's responsibilities

The auditor's opinion on the fair presentation of the financial statements as a whole is valued by investors and provides an important focus to the conduct of an audit of financial statements. It is important, therefore, that today's "binary" audit opinion be retained.

We also believe certain “core” content of the auditor’s report should also be retained as a useful point of reference in communicating key concepts. Enhancements can be made to this wording that would be of value to users, including explanation of how the concept of materiality is applied in audits generally and matters relevant to auditor independence. Explaining the nature and extent of the auditor’s involvement with other information in the annual report would be useful as well. These matters may contribute to the expectations gap and, therefore, further explanation of them could usefully address misconceptions.

Some users have said that information about the specific audit performed would be helpful. For example, some are interested in the level of materiality applied in an audit, any significant internal control deficiencies found, areas of significant difficulty encountered in the audit and their resolution, or other areas of significant audit judgement. This would not, in our view, result in meaningful reporting. At a minimum, given the lack of objective criteria on which to determine what should be reported, the meaning and significance of such disclosures would be difficult for users to weigh. More importantly, however, a short written report can never fully convey the basis and context of those judgements. Auditors report such matters to those charged with governance (e.g., audit committees or supervisory boards), but as part of a two-way and dynamic dialogue that provides the context necessary to make it meaningful.

In conclusion, the time is right to significantly enhance auditor reporting. Users’ needs are more clearly articulated than ever before. Responding to these needs is critical to maintaining the value and relevance of the audit. Valuable enhancements can be made now that move us some way to achieving the goal of more informative and valuable auditor reporting. More radical solutions will require comprehensive reform in corporate reporting and corporate governance.

As solutions are developed, it is critical that there be active, continuous and open dialogue amongst auditing standard setters, regulators, users and other stakeholders. In particular, we urge the IAASB to work in collaboration with the US Public Company Accounting Oversight Board in relation to their respective consultation papers to develop solutions that work globally. Significantly different auditor reporting models in a global market is not in the public interest. Some flexibility between jurisdictions may be needed, but unintentional and unnecessary differences in approach should be avoided.

Yours faithfully,

Richard Sexton.

Richard G. Sexton
Deputy Global Assurance Leader

Appendix – Responses to Specific Questions

We welcome the International Audit and Assurance Standards Board's (IAASB's) consultation to explore ways to enhance the quality, relevance and value of auditor reporting. We believe the time is right to significantly enhance auditor reporting.

In our cover letter, we identify enhancements in auditor reporting that can be made in the shorter term that we believe move us some way to responding to the demands of users for more informative and valuable auditor reporting, within the constraints of the current corporate reporting model used today. In making those changes, we need to retain what is working well and be bold enough to make it better.

Such improvements alone will not fully meet the emerging needs of users and capital markets, nor provide the informational value and greater insights many are seeking. Therefore we continue to emphasise the importance of longer-term reform of the corporate reporting model. As corporate reporting evolves, a more comprehensive assurance model can further enhance the relevance and value of the auditor's role. Options proposed in the Consultation Paper that we believe are not practicable in the shorter term—as well as options not yet even considered—may become viable as the wider corporate reporting model evolves.

We also articulate in the cover letter overarching principles to help guide standard setters and others in making effective changes to auditor reporting. We found these principles to be useful guideposts when considering the relative merits of the options for change, in particular in evaluating whether or not they would be constructive and would not inadvertently do harm. In this appendix, we apply those principles to explain our proposed changes to auditor reporting in greater detail, in response to the specific questions set out in the Consultation Paper. We also explain more fully why we do not support certain other options at this time.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Jim Lee, Global Chief Auditor, at jim.lee@us.pwc.com, or myself, at richard.g.sexton@uk.pwc.com.

Request for specific comments

<u>Issues Identified</u>

1. *Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?*

The Consultation Paper captures well the range of users' perceptions of the relevance and usefulness of auditor reporting and reflects the challenges that exist in addressing the "expectations" and "information" gaps given those divergent perceptions and views on relative priorities. Users describe the perceived shortcomings in the current format of the audit report, and other aspects of auditor reporting that they would like to see changed. We believe that genuine enhancements in auditor reporting can be made in the shorter term even with the constraint of the current corporate reporting model. We fully support change and have outlined in our further responses to the questions raised in the consultation how we feel that may be best achieved, taking into account the overarching principles in our cover letter.

2. *If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?*

We set out on pages 2 and 3 of our cover letter our views on what users are telling us are their perceptions of auditor reporting and where they see it falling short. The current model of auditor reporting has served investors, markets and other stakeholders well for many years. The global financial crisis, however, has resulted in users becoming increasingly vocal in expressing a desire for more informative auditor reporting. But their views on how auditor reporting could be more informative and valuable vary considerably.

In addressing users' needs it is important to explore both shorter term and longer term responses. Some of users' needs may be related as much to perceived difficulties with the wider corporate reporting model as they are to auditor reporting. To achieve meaningful change, the norms of law, regulation, corporate governance, business behaviour and other features of market practice within which today's audit model has evolved may all need change to achieve the desired outcome. For that reason, we believe it is important that dialogue involving all stakeholders remains ongoing to explore potential medium and longer term enhancements to the broader corporate reporting model and the potential for a more comprehensive assurance model. We also stand ready to work collaboratively with investors, management, directors, those charged with governance, regulators and other stakeholders to actively drive this agenda forward.

The most commonly voiced demand made by users is for auditors to provide greater insight into the significant judgements management has made in preparing the financial statements, which are key risks addressed in the audit. With the growing complexity in financial reporting and the ever increasing need for management to exercise significant judgement in financial reporting, communicating to users the financial reporting judgements that the auditor views as significant to an understanding of the entity's financial statements would be valuable. Users also tell us they have an appetite for auditor involvement with other information reported by entities outside the scope of today's financial statement audit. Some of these are areas in which auditors could provide additional assurance or other auditor association.

The demands for change in auditor reporting are voiced most strongly in jurisdictions affected most by the recent financial crisis, but we believe that the views of users in those jurisdictions are shared by users around the world. We observe, however, that they are coming predominantly from shareholders and investors of listed/public companies and other public interest entities. That may be an indication that enhancements in auditor reporting might not be wanted or needed by all users. The unique characteristics of ownership and governance of other entities, and the relative cost/benefit of the proposed enhancements in auditor reporting, may justify limiting the enhanced or additional reporting to some, but not all, entities.

3. *Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?*

We support a single set of principles-based auditing standards that are scalable to all entities. Audits, no matter the size of the entity, are intended to provide a similar level of assurance.

Therefore, we believe that the “core” elements of the standard auditor’s report, which describe matters common to all audits, and the audit opinion, should be consistent for all entities—as should any changes impacting these elements. We suggest in our responses to questions 4-5 below how these “core” elements might be further enhanced to improve their usefulness to users by clarifying certain audit concepts that are often misinterpreted. Some limited accommodation may be needed with respect to “core” elements of the standard auditor’s report for circumstances when law or regulation or national auditing standards dictate particular wording or structure (as is recognised in the ISAs today).

As noted in our response to Q2 above, the demands for change are coming predominantly from users of financial statements and audit reports of listed/public companies and other public interest entities. Different types of entity across different jurisdictions have unique characteristics of ownership and governance, resulting in differing information needs between users of listed and small to medium sized entities and possibly differing perceptions of cost/benefit. We, therefore, support additional auditor reporting requirements that go beyond what would be considered “core” elements of any audit report being directed to listed/public and other public interest entities.

For any proposed additional auditor reporting, the focus may need to be on the objective or aim of that reporting rather than specify the way that it must be done because of underlying differences in financial reporting, corporate reporting and corporate governance frameworks.

Exploring Options for Change

A. Format and Structure of the Standard Auditor's Report

4. *Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor’s report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor’s report in the way outlined in Appendix 1 of this Consultation Paper?*

We believe that there is room for improvement in both the format and structure of the standard auditor’s report.

We would support proposals to re-order the existing content of the auditor’s report if there is evidence investors believe this would improve its communicative value. Re-positioning the opinion to place it first in the report for greater emphasis, as shown in the illustration in Appendix 1 of the consultation paper, has long been a reporting option used by PwC in some territories. It has been well received by users and we are not away of any unintended negative consequences.

Changing the structure of the report, in combination with one or more of the suggestions below to clarify certain terminology in the report, will likely result in an auditor’s report that investors perceive to be more readable or accessible.

5. *If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?*

We believe it is important that the paragraphs describing management's and the auditor's responsibilities and basic concepts underlying an audit are retained in the body of the auditor's report. Although much of this "core" content is standard wording, it plays a crucial role in providing necessary context to the audit opinion.

These paragraphs communicate the fundamental roles in the corporate financial reporting model: that management is responsible for the financial statements and their preparation, and the auditor is responsible for expressing an opinion on those financial statements. While some users of financial statements have become familiar with these standard descriptions, and may skip over them after a first reading, regardless of whether they precede or follow the audit opinion, that does not diminish their importance or usefulness as a point of reference. In fact, we believe the omission of these paragraphs from the standard auditor's report may have the unintended consequence of widening the expectations gap.

We believe the enhancements below could be made to the current standard wording to further address matters that currently contribute to the expectations gap. Further explanation of them in the standard auditor's report could, in our view, usefully help to dispel misconceptions.

- Include further explanation of the auditor's independence. For example, we would support requiring a statement in the auditor's report that, "in accordance with [*the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountant; or relevant applicable law or regulation; or with the ISAs]*, we (i.e., the auditor) have confirmed our independence, including discussing any matters that could be reasonably be thought to bear on our independence and related safeguards, with respect to the Company to the Audit Committee, who have approved the assessment of our independence," or alternatively , "we are independent with respect to the Company within the meaning of [*applicable law or regulation*]."

- Include further description of the importance of materiality in the audit. We recommend that the IAASB explore whether the principles underpinning the application guidance in ISA 320, *Materiality in Planning and Performing the Audit*, could be the basis for a narrative description that better articulates to users, using plain English, how materiality is determined and applied in the audit.

  We believe this would be more beneficial in conveying how materiality judgements are made in an audit than disclosing quantitative values of materiality. Quantitative disclosures differ depending on the types of entities being audited and the circumstances of the individual engagement; introduce further complexities, such as materiality for specific items; and, perhaps most importantly, may give the impression that quantitative considerations overshadow qualitative factors, which can be of greater relevance in particular circumstances.

- Clarify the nature and extent of the auditor's responsibilities for other information in documents containing financial statements, as discussed below.

Finally, as we note in our response to question 2, we believe that it is desirable for the description and understanding of the "core" elements of the audit report to be as consistent as possible globally to enhance the comparability of reporting across jurisdictions. The current audit report in ISA 700, *Forming an Opinion and Reporting on Financial Statements*, provides a robust basis for achieving this. Some accommodation, similar to that in extant ISA 700, may be needed for circumstances when law or regulation or national auditing standards dictates particular wording or structure.

B. Other Information in Documents Containing Audited Financial Statements

6. *Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?*

We believe there is merit to including a statement in the standard auditor's report that clarifies the auditor's responsibilities regarding other information in documents containing audited financial statements. Such a statement could benefit users by clarifying the nature and extent of the auditor's involvement with that other information.

Consistent with the changes addressed in Questions 4 and 5, amending the standard auditor's report to include such language would not involve any incremental cost.

7. *If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?*

We believe the statement should summarize the auditor's responsibilities as set forth in ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* (ISA 720), including that:

- The auditor should read the other information to identify material inconsistencies with the audited financial statements.
- The auditor should follow up with management and, if necessary, those charged with governance, to resolve any material inconsistencies that require revision of the financial statements or the other information.
- The auditor's opinion does not cover the other information and the auditor has no specific responsibility for determining whether or not the information is properly stated.

We believe users' interests would not be served by the auditor drawing attention to any inconsistencies that have been resolved. In accordance with ISA 720, if revision of the audited financial statements is necessary and management refuses to make the revision, the auditor is required to modify the opinion and the reason for the modification would be disclosed. If revision of the other information is necessary and management refuses to make the revision, ISA 720 requires that the auditor include an Other Matter paragraph in the auditor's report describing the material inconsistency or, alternatively, withhold the report or withdraw from the engagement. We believe these reporting requirements are both appropriate and sufficient. Drawing attention in the auditor's report to material inconsistencies that have been resolved would be similar to disclosing information about audit areas of difficulty and their resolution. We explain in our response to question 8 below, why we do not believe this would add value to users.

C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

The Consultation Paper identifies the following examples that users have suggested would be helpful information about the audit:

- Key areas of risk of material misstatement of the financial statements identified by the auditor, including critical accounting estimates or areas of measurement uncertainty.
- Areas of significant auditor judgement, for example, judgements about material uncertainties that may cast doubt about an entity's ability to continue as a going concern, or judgements pertaining to the recognition, de-recognition, measurement or disclosure of relevant items within the financial statements.
- The level of materiality applied by the auditor to perform the audit.
- The entity's internal controls, including significant internal control deficiencies identified by the auditor during the audit.
- Areas of significant difficulty encountered during the audit and their resolution.

Key areas of risk of material misstatement and areas of significant auditor judgement

As stated in the cover letter, we believe that the most appropriate way to provide greater insight into risks and judgement is by expanding auditor reporting to focus on those financial reporting judgements made by management that the auditor views as significant to understanding the entity's financial statements. Significant judgements made by management in preparing the financial statements include the selection of significant accounting policies and the decisions involved in making critical accounting estimates (including the choice of methods, models and assumptions) and concluding on areas of measurement uncertainty. A significant advantage of focussing on the financial statement disclosures is that it would avoid the auditor and management giving competing views of risks that may be difficult to reconcile and, therefore, would introduce uncertainty into markets.

Recognising that different financial statement and corporate reporting frameworks and reporting practices exist globally, we support the following options to achieve the objective of bringing greater focus on significant financial reporting judgements.

- **Emphasis of matter paragraphs in the auditor's report – 'shining the light on judgements'**. We believe there is merit in exploring whether increased use of emphasis of matter (EOM) paragraphs helps enhance the navigability of financial statements for users by directing the reader to significant disclosures, for example significant judgements and uncertainties. Anecdotal evidence suggests that increased auditor attention to specific areas of the financial statements may improve the robustness and reliability of management's disclosures.

Since EOM paragraphs would be linked to disclosures in the entity's financial statements, using EOM paragraphs also has the advantage of preserving management's role as the source of disclosure about the financial statements while also enhancing auditor reporting.

The scope of matters that might be emphasised is very broad and may lead to inconsistency in the matters emphasised in audit reports if left to auditor discretion. The resulting lack of comparability between audit reports may lead to confusion for users. Therefore, to successfully implement this approach and introduce consistency, and therefore the comparability among reports that users desire, we believe auditing standards would need to identify the matters auditors are required to emphasise. This would also help mitigate the potential unintended consequence that users would view EOM paragraphs as an indicator that other financial reporting disclosures that auditors have not given emphasis to are insignificant, which would be undesirable. We believe that management's critical accounting estimates might be an appropriate "anchor" for required EOM paragraphs, at least initially, and one that is responsive to users' requests for more information.

ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, currently does not mandate the use of any EOM paragraphs. Its focus is on the purpose of EOM paragraphs generally, and the content and placement of EOM paragraphs when they are included. It includes an Appendix that identifies other ISAs that do mandate them including, notably, ISA 570, *Going Concern*. ISA 706 could be amended to accommodate mandating EOM paragraphs for the purpose of emphasising significant financial reporting judgements. Another alternative would be to create a separate standard addressing the auditor's emphasis of the significant financial reporting judgements.

In those jurisdictions where management commentary regarding those judgements is included outside of the financial statements, for example, in the director's commentary or management's discussion and analysis (MD&A), we support in principle the concept of expanding EOM paragraphs to refer to those disclosures. The framework for this reporting may require jurisdictional action to achieve consistency in matters that are reported and comparability across entities within that jurisdiction (which may not then result in consistency and comparability across jurisdictions).

- **Separate assurance on management's discussion of significant financial reporting judgements.** In jurisdictions in which management's discussion of their significant financial reporting judgements is elsewhere in the annual report, rather than just direct readers' attention to that discussion, auditors could separately report (i.e. express an opinion and provide assurance) on those specific aspects, either in a separate report or as an integral part of the audit report on the financial statements. Indeed, auditor involvement with and assurance on disclosures that are important to users could have the effect of improving management's process for their preparation and the disclosures themselves. To be effective this would require a clear framework for management's disclosures.

- **Enhanced audit committee reporting and assurance.** A further option to achieve the objective would be for audit committees to report publicly on their oversight of the entity's significant financial reporting judgements and audit thereon. Our views on this option are discussed more fully in our response to questions 11-13.

All of the above approaches have the advantage of preserving management's role as the source of disclosure about the financial statements.

The level of materiality applied by the auditor to perform the audit

Please see our response to question 5 which addresses this.

The entity's internal controls

Please see our response to question 10 which addresses this.

Areas of significant difficulty encountered during the audit and their resolution

We believe that auditor reporting on areas of significant difficulty encountered during the audit and their resolution would be detrimental to audit quality because of its likelihood to damage the relationships between the auditor, management and those charged with governance that are necessary to performing an effective audit. For example, management and those charged with governance may be less likely to discuss openly such matters if they are subject to disclosure. Without objective criteria on which to determine what should be reported, the meaning and significance of such disclosures would be difficult for users to weigh. Indeed, the disclosure of such matters without the opportunity for dialogue would be challenging and subject to misinterpretation by users. In fact, we question what value users would find from identifying matters that have been resolved. The key point from the perspective of users is that such issues have been resolved to the satisfaction of the auditor.

9. *Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.*

The "justification of assessments" requirement in France is, in many ways, analogous to the use of EOM paragraphs discussed in question 8 above because, to explain how auditors have reached their overall opinion on the financial statements as a whole, audit reports in France highlight the areas of significant judgement by management in preparing the financial statements. As explained above, we believe the use of EOM paragraphs has merit and could enhance the value of auditor reporting by directing users to significant disclosures, for example significant judgements, in the financial statements.

Some users would also like to know the audit procedures performed in areas of significant risk in the audit, including areas that may be the subject of Emphasis of Matter paragraphs. Such disclosures are currently made as part of the auditor's "justification of assessments" in France. There are a number of practical difficulties in doing so. In particular, we are concerned that identifying only certain procedures, in the absence of sufficient context regarding the audit approach and methodology could diminish users' perception of the auditor's work effort, which may increase the expectations gap. That, coupled with the potential for lack of comparability of disclosures across entities, could exacerbate, rather than reduce, perceived misconceptions of audits. For example, reports to audit committees run into tens of pages, and even then are seen by some to be too summarised. They are also just one part of the dialogue between auditors and audit committees that provides necessary context regarding the audit and the work of the auditor. There is a danger that in trying to distil the complexity and nuance of this dialogue, its meaning would be lost. There is a considerable risk that the descriptions could easily become either too technical or boilerplate descriptions of "standard" procedures. In a recent survey of investors in France regarding the "justification of assessments", users commented that such disclosures have become excessively standardised, reiterating procedures performed without sufficient context and using language that can often be convoluted. As a result, it would seem that this disclosure is seen as providing only limited additional value.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

The Consultation Paper explores various options, identified below, for providing auditor insights about the entity or the quality of its financial reporting:

- The quality of the entity's internal controls and financial reporting processes.
- Qualitative aspects of the entity's accounting policies, including the relative conservatism or aggressiveness reflected in management's selected policies.
- The auditor's assessment of management's critical accounting judgements and estimates, including where each critical judgement or estimate falls within a range of possible results.
- The quality and effectiveness of the entity's governance structure and risk management, and the quality and effectiveness of its management.

We have considered each of these options but do not view them as viable solutions due to significant practical challenges in achieving meaningful reporting. In particular, the subjective nature of this information will result in inconsistent application by different auditors and, in turn, a significant lack of comparability between audits of different entities that would be confusing to users. In addition, the subjective nature of information such as the aggressiveness or conservatism of management's selected accounting policies, or the effectiveness of management, requires face-to-face dialogue for meaningful communication. Indeed, much of the subject matter of these options is required to be discussed with those charged with governance and with management. A requirement for the auditor to disclose such information in the audit report may have the unintended consequence of reducing the willingness of management and those charged with governance to engage in open and candid dialogue with the auditor, potentially impeding the auditor's ability to obtain sufficient appropriate evidence.

We also believe that disclosure by the auditor of some of the proposed information may be interpreted by some users as reducing the clarity of the auditor's opinion. For example, if the auditor were to discuss an alternative treatment that was permissible under the applicable financial reporting framework, some may question whether that constitutes a "qualification" of an auditor's unqualified opinion. The potential for the auditor to present alternative or competing information cannot, in our view, serve the public interest: how would the marketplace resolve the confusion created by such competing views? Therefore, we believe that, if disclosed, such information should be reported by management or the audit committee to preserve the respective roles and responsibilities of management, those charged with governance and the auditor.

With respect to disclosure about the quality of the entity's internal controls, ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, requires the auditor to communicate significant deficiencies to both those charged with governance and management, and to communicate to management other deficiencies that, in the auditor's judgement, are of sufficient importance to merit management's attention. The auditor is not, however, required to perform procedures specifically to identify such deficiencies. In particular, because the auditor is not required to perform tests of the operating effectiveness of controls in an audit of financial statements, except in certain circumstances, the basis for identifying internal control deficiencies would necessarily vary widely depending on the nature and extent of controls testing performed in the audit. Entities with stronger controls could have more deficiencies identified simply because the auditor had tested more controls; whereas an entity with weaker controls might not have any deficiencies reported because the auditor had taken a substantive approach to the audit. There is a risk that a requirement for auditor external reporting could actually have the unintended consequence of the auditor being pressured to take a primarily substantive audit approach to avoid being able to identify control deficiencies, which may not be the most effective or efficient audit approach.

We believe that the auditor can provide assurance about the entity's internal controls by providing separate assurance, as discussed in our response to question 14. Given the costs involved, there would need to be sufficient user demand for some form of additional reporting in relation to internal control.

Our response to question 8 above also discusses options with respect to reporting on management's critical accounting judgements and estimates that we believe are viable.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

We support the option of an enhanced model of corporate governance reporting as one option that may achieve the objective of providing users with the type of information they seek related to the entity's significant financial reporting judgements.

We believe that greater transparency around the preparation of financial statements and the subsequent audit process, including transparency about the dialogue between auditors and the audit committee, would help to bridge the expectation gap and clarify the role of audit. This option also retains the respective roles and responsibilities of management, directors, the audit committee and the auditors – in particular that the entity is responsible for communicating original information about the entity and the auditor then issues an opinion on the reliability of that information.

The dialogue between auditors and audit committees that takes place today normally includes a discussion about the main risks foreseen, the audit approach to be adopted and subsequently a report on how the audit process has actually been conducted, its outcomes and the judgements made in concluding the audit. Thus, the audit committee's report to shareholders would have the advantage of being able to explain how the audit committee reviewed and was satisfied with the audit approach and methodology applied.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

The main challenge (as opposed to the inherent advantages) in promoting the adoption of this model is the dependence on the existence and maturity of corporate governance models and practices, regulation and reporting rules in different jurisdictions. Even in those jurisdictions with more established models and practices, agreement and support from regulatory bodies and changes in legislation and/or securities regulation would likely still be required to enable effective implementation. In some jurisdictions this may be relatively achievable in the shorter term, for example the UK, whilst for others it may be a longer term aspiration as part of wider reform of corporate reporting practices.

In addition to, or as part of, any regulation or reporting rules, it would also be necessary to develop an appropriate framework(s) for reporting to ensure sufficient consistency and comparability across entities that users perceived as adding meaningful value. There is anecdotal evidence that without a sufficiently robust framework in place, public reporting by audit committees can be poor and, therefore, damaging to the perception of audit committees.

Some users hold the view that they want to receive the information directly from the auditors. Therefore, even when the nature of information that may be reported by audit committees is what users are seeking, there may be some who would value this less than if that same information was disclosed by the auditor directly. We believe this perception issue can be overcome through appropriate communication about the purpose and content of audit committee reports and through the auditor reporting on it (see our response to question 13 below).

Based on discussions to date, we can also foresee potential for a lack of appetite from audit committees and management in some jurisdictions. For this approach to be effective it would need their full buy-in. Securing this support may involve debate as to extent of responsibilities and liability, and practicalities of implementation, including cost, as well as others.

There would also inevitably be additional costs associated with this option, both for entities and auditors. From the perspective of the auditor, it would likely involve more detailed reporting to the audit committee itself which may then also involve additional discussions on matters in that reporting. Plus, any separate reporting by the auditor on completeness of the audit committee's own reporting, or separate assurance thereon, would involve incremental cost to that incurred in the current scope of an audit.

Notwithstanding these challenges, we believe this can be an effective model if implemented fully.

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

We believe auditors could report on whether the description provided by the audit committee of the dialogue with the auditors regarding the significant financial reporting judgements was a fair and balanced reflection.

As audit committees oversee the auditors, it would be inappropriate for the auditor to provide assurance on all aspects of the audit committee report i.e., there is an inherent conflict of interest in having the audit committee discuss its oversight of the audit and the auditor and for the auditor to then provide assurance on those statements.

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

The Consultation Paper identified the following five examples of areas of information on which the auditor could potentially provide separate assurance or other related services:
- Key performance indicators
- Internal controls and financial reporting processes
- Corporate governance arrangements
- Business model, including the sustainability thereof
- Enterprise-wide risk management

We have included in our response below a further two items, which we support and believe address two areas that are of particular interest to users:
- Non-GAAP financial information
- Earnings releases

We deal with each of these areas below. In addition, our comments in response to question 8, where we discuss the auditor providing separate assurance on management's discussion of significant financial reporting judgements is relevant.

As an overarching comment, we acknowledge the argument that increased auditor involvement with such information may improve management's process and disclosures in that area. For each of the options explored, the benefits need to be weighed against the costs, including any additional financial costs, to determine what options are both practicable and add value to users.

Non-GAAP financial information

As we note in our cover letter, users may welcome the rigour and challenge that auditor involvement with non-GAAP financial measures could bring. For those non-GAAP financial measures that are readily reconcilable and generally consistent with financial information in the entity's financial statements we would support the auditor providing some additional form of reporting. We can envisage the possibility of different levels of assurance being considered for different types of non-GAAP financial measures. Alternatively the auditor's involvement could be limited to performing specified procedures, which might vary by different types of entity or industry.

Appropriate benchmarks and sufficiently robust criteria would need to be developed, which may include industry-focussed measures, to provide consistency, both in management reporting and the auditor's procedures thereon. One potential risk associated with this approach is if management perceive any imposed criteria as overly restricting their ability to discuss the entity's performance using their own views. Further consultation between management, users and corporate reporting standard setters may be necessary to identify an appropriate way forward in this area.

Earnings releases

Earnings releases are one area that users have said are of particular importance.

In principle, we support exploring how auditors might provide assurance in this area. We are aware of practices in some jurisdictions today which associate the auditor with earnings releases. For example, in the UK the entity is required to obtain the auditor's authorisation to publish the earnings release. This sort of practice could be expanded to other jurisdictions.

One reporting model, that we could foresee could involve the auditor undertaking agreed-upon procedures (AUP) in respect of the earnings release. However, that may necessitate changes in the existing AUP reporting model. There would also be practical challenges to achieving consistency given differences in global reporting practices for earnings releases.

One additional challenge that would need to be overcome in exploring assurance in this area is current corporate reporting filing deadlines – many listed entities are already under intense pressure to release earnings statements in a short space of time. Any auditor involvement in providing assurance on those documents is likely to inevitably add time to that process, which entities may not wish to incur.

Key performance indicators (KPIs)

The considerations for reporting on KPIs are not dissimilar to the considerations for reporting on non-GAAP financial information. However, there is far greater scope as to what may be perceived as KPIs across different entities – even within the same industry, how management organise the business and monitor performance can vary significantly.

It is unclear whether there are robust criteria or industry benchmarks for different types of KPIs. Whilst current assurance/attestation standards may provide a framework for reporting on KPIs, further analysis would be necessary to consider whether those models fully meet the needs, such as whether they would allow sufficient flexibility to provide different levels of assurance on different types of data.

Nevertheless, we believe this is another area in which we would support the auditor undertaking separate assurance or related services if the appropriate management reporting frameworks can be developed and revisions to standards were achievable. This is an area that is also evolving and developments in the evolution of integrated reporting models need to be monitored as that may lead to consensus in reporting needs and practices that might usefully inform what changes may be necessary.

Internal controls and financial reporting processes

Further to our comments in response to question 10, if there is appetite among users for additional reporting on internal control over financial reporting, we believe this is best met by providing separate assurance on it. This is a practice that is common in certain jurisdictions today. To do so, however, necessitates the development of appropriate reporting framework(s) for entities, as well as auditing standards and is, therefore, not an insignificant undertaking for either entities or auditors.

Risk management systems

Similar to internal controls, auditors in some jurisdictions provide assurance on risk management systems. The requirements for such assurance may be limited to certain aspects of an entity's risk management systems, or to certain industries. This too would require the development of appropriate reporting framework(s) for entities, as well as auditing standards and, depending on the scope, could also require the development of auditor expertise in the particular area.

Corporate governance arrangements

We believe that information on governance arrangements should primarily come from management and those charged with governance. However, there is scope for the auditor to provide assurance on factual statements made by management and those charged with governance with respect to such arrangements, in those jurisdictions that have sufficiently developed corporate governance practices.

Business model, including the sustainability thereof/Enterprise-wide risk management

We do not believe it is appropriate for auditors to report on an entity's business model or overall enterprise-wide risk management, which both deal with the entity's sustainability. It is questionable whether auditors around the globe would have the appropriate knowledge and experience to be able to conduct such assessments today and whether such assessments, which are inherently subjective, would be meaningful. Furthermore, in addition to standards and guidance for auditors, this option would require the development of more robust frameworks for reporting by management (there is currently no requirement for companies to have an enterprise-wide risk management programme). It is also unclear whether users would perceive additional value that exceeds the costs.

For all of these reasons, we believe the other options for additional assurance are better and more productive steps at this time.

15. What actions are necessary to influence further development of such assurance or related services?

As can be seen from our analysis of the various options for additional assurance above, there are some common themes that arise with respect to actions necessary to further development of expanded assurance and related services. These can be summarised as follows:

- The need to develop appropriate frameworks for reporting by management, including, as appropriate, additional consultation between corporate reporting standard setters, users and management.
- Revision to assurance and/or related services standards to reflect any new scope of services.

- Further consideration of the need for development of safe harbour provisions, including appropriate auditor liability protections.
- Monitoring developments in integrated reporting models globally to identify emerging practices that might usefully inform the above.

Implications of Change and Potential Implementation Challenges

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

Please refer to our detailed responses to questions 4 to 15 in which we have set out our views on the relative benefits, costs, challenges and other implications associated with the various options for change.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entity? If not, please explain how they may differ.

Calls for change are coming predominantly from shareholders and investors of listed/public companies and other public interest entities. As we discuss in our cover letter, some of the options for change, in particular those aimed at enhanced or additional reporting, could be targeted at this sector.

For example, we do not believe that all options would have relevance for non-public and small to medium-sized entities, given their unique characteristics of ownership and governance. We also believe that the relative cost/benefit may justify differential reporting.

That being said, the implications of changes to the structure and format of the standard auditor's report would be the same across all entities. As our comparison of options demonstrates, these options have the least impact across the range of implications and therefore would impact all entities to a similar extent.

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

We believe that any of the three options that we describe in our cover letter in the section "A focus on significant judgements", in combination with additional auditor reporting on non-GAAP financial information, earning releases and internal control (where the benefit of that additional assurance is agreed to exceed the costs), would be most likely to address the demands of users for more informative and valuable auditor reporting in the short to medium term. As corporate reporting evolves, a more comprehensive assurance model can further enhance the relevance and value of the auditor's role.

To effect viable reporting in those areas explored in Section III, Parts D and E (Corporate governance reporting and other assurance and related services) would require active engagement and collaboration of many—management, directors, investors, auditors, regulators, policy makers, legislators, as well as standard-setters. With respect to non-GAAP financial information, earnings releases and internal control, collaboration with appropriate parties would be necessary to develop appropriate frameworks and criteria to enable consistent management reporting, and auditor reporting thereon, in these areas.

In many jurisdictions, there is limited, if any, public reporting by audit committees, and therefore this option would be unlikely to be viable for many in the shorter term. Therefore, this option is not viable on a global scale, although it could be an effective option in jurisdictions with strong corporate governance regimes and public reporting by audit committees. Even in those jurisdictions, implementing it would require significant collaboration with, for example, regulators, directors and audit committees.

Public interest will be best served by different standard-setters working collaboratively to ensure that, as far as possible, consistent models are developed. As solutions are developed, it is critical that there be active, continuous and open dialogue amongst auditing standard-setters, regulators, users and other stakeholders. In particular, we urge the IAASB to work in collaboration with the US Public Company Accounting Oversight Board in relation to their respective consultation papers to develop solutions that work globally. Significantly different auditor reporting models in a global market is not in the public interest. Some flexibility between jurisdictions may be needed, but unintentional and unnecessary differences in approach should be avoided.

19. Are there other suggestions for change to auditor reporting to narrow the "information gap" perceived by users or to improve the communicative value of the auditor's report?

We have not identified any additional options to those that we have articulated in our cover letter and in this appendix. We believe these represent a good number of areas to pursue in the shorter term that will require concerted efforts by many to achieve. In the longer term, as corporate reporting evolves towards a more integrated reporting model, a more comprehensive assurance model may be able to include opinions that cover other aspects of the entity's reporting, further enhancing the relevance and value of the auditor's role. Options proposed in the Consultation Paper that we believe are not practicable in the shorter term—as well as options not yet even considered—may become viable as the wider corporate reporting model evolves. We stand ready to work collaboratively with all interested parties to actively drive this agenda forward.