

Issued on: 16 September 2011

**HKIoD Response to IAASB Consultation Paper on  
Enhancing the Value of Auditor Reporting: Exploring Options for Change**

The Hong Kong Institute of Directors (“HKIoD”) is Hong Kong’s premier body representing professional directors working together to promote good corporate governance and to contribute towards advancing the status of Hong Kong, both in China and internationally. A non-profit-distributing organisation with membership consisting of directors from listed and non-listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors.

In our view, any change to auditor reporting, if to be made, should be to enhance, certainly not to diminish, a board’s and its audit committee’s role in and control over the audit process and associated financial reporting matters. In similar vein, any change to auditor reporting, if to be made, should aim at and have the prospect of enhancing the type of information and the manner of presentation of information so as to facilitate the board’s/audit committee’s performance of corporate governance duties in overseeing financial reporting, internal controls and risk management within the company.

Serious thought should be given to consider whether the auditor’s report is the place to make changes. If the financial statements are found to be not providing information actually useful to users, it should perhaps be the financial reporting standards that should be changed. If additional information is found to be necessary to support the financial statements but not currently required to be disclosed, then perhaps it should be the disclosure requirements that should be changed. In other words, changes to auditor reporting may not be the needed cure for what might be shortcomings in financial reporting standards or disclosure requirements.

If indeed more information is to be given, in the auditor’s report or otherwise, serious thought must then be given to consider who should be the party to give the information. We suspect that some information that investors would want, especially “forward looking information” that may be of use in valuing a company, cannot come from an audit or from the auditor. Based on their work on the audit, the auditor’s knowledge is mostly tied to what has already happened. Only the company’s management, and therefore the board and its committees, will have the overall information for purpose of company disclosure.

All users of financial statements and auditor’s reports should have an understanding of the nature, scope and limitations of audit. Users must equip themselves rather than relying on auditor’s reports as self-contained, self-explanatory documents explaining all they need to know about what auditors do. Board members are key users of financial statements and auditor’s reports. Educating and keeping directors up to speed with financial literacy remains of relevance and a necessity.

Audit standards and resources about the audit process and what auditors do are widely available, many in fact in the public domain. Users can read for themselves and they should do so in order to understand auditor's reports. We caution against changes to auditor reporting that could have the potential of reducing user's incentives to know what audit is and to understand what an auditor's report means.

We also caution against changes to auditor reporting, even when such changes are seen to have some quantum of merits, before a full assessment of the compliance costs that will fall on issuers vis a vis the value that the changes could add to the capital markets and the economy generally.

HKIoD offers these comments primarily from the perspective of directors of publicly listed companies. We fully recognize the subject of auditor reporting must also be examined in relation to business associations of other types and sizes.

HKIoD will be most delighted to remain engaged in this important dialogue and to work with the IAASB and other organizations going forward.

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