Federation of European Accountants
Fédération des Experts comptables Européens

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Ref.: AUD/PRJ/HBL/LAN/SHA

Dear Mr. Gunn,

Re: IAASB Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change

FEE is pleased to provide you with its comments on the IAASB Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change.

FEE greatly appreciates the initiative to review auditors' communication. With the unfolding of the financial crisis the audit profession should be prepared to reassess its role and how it can enhance its contribution to the economy and to society.

A number of related areas arising from the crisis have already been analysed, especially in Europe, where issues such as corporate governance and the broader views on audit policy in general have received great attention from regulators as well as from all stakeholders within the financial reporting system.

In this broader context of the European debate on audit policy, it is therefore the right time to review at international level whether improvements can be made as to how auditors communicate with their stakeholders. It will be important for the standard setter to aim at changes that are globally accepted given the globalisation of markets and of the users of financial statements. As the PCAOB is debating the same issue of identifying potential improvements to the current reporting model, the IAASB is strongly encouraged to engage in a close dialogue with the US auditing standard setter on the matter. Also, it will be important to engage with other stakeholders to find the right balance of improvements that will result in additional value for the users of audit reports.

Criticism on the current audit report has been expressed by a number of stakeholders. Audit has become more complex over recent years as the complexity of entities' business models and financial reporting have also increased. The audit profession should therefore reflect on whether the developments in the economy, in business and in reporting in general should result in improvements in the way that auditors communicate the results of their work today. In order to ensure that the core service of the audit profession, the audit, is still valued by its users and perceived to be of relevance and of quality to its users, the audit profession should carefully consider the comments made. In doing so, FEE recognises that change is needed and should be made with the aim of improving the communicative value of audit reports through providing better information and not just more information about the audit.

The Consultation Paper identifies and discusses the information gap between auditors and the users of financial statements. FEE agrees that there are possibilities for reducing this information gap by the auditor as well as by the audited entities. However, it may not be possible to reduce this gap for all users.

The expectation gap also exists alongside the information gap and may be affected in a positive way with a reduction in the information gap. However, there have been many attempts to reduce this gap and it is unlikely that it will be possible to fully eliminate it.

An important role of the audit profession is to add transparency to and provide comfort as to the reliability of corporate reporting, including financial as well as non-financial information. In this context, the developments regarding integrated reporting are important to monitor, as integrated reporting, at these early stages of its development, has the potential to significantly change the way that financial reporting is done. Financial reporting has also been criticised for being complex and difficult to understand and initiatives have been introduced to review and reduce complexity of financial reporting. The IAASB is encouraged to closely monitor these developments as they all will impact the audit and auditor’s communication.

Although the audit is the core service of the audit profession and should continue to be valued as contributing to the reliability of financial information, more and more attention should be given to the role of the auditor in relation to non-financial information. The work undertaken by the IAASB rightfully focuses not just on the audit report in accordance with ISA 700, but on audit communication in a broader sense. Changes introduced to audit reports should therefore be considered for other types of reports as well, such as for review reports and other assurance reports. The aim would be alignment and to maintain the consistency that currently exists throughout the various reports issued in accordance with IAASB standards, whilst still ensuring that audit reports are clearly differentiated from review and other assurance reports.

Our main comments are summarised below:

1. Changes are welcome and should be introduced to improve the communicative value of audit reports by carefully considering the comments made by various stakeholders of the current audit report being too generic and containing boilerplate language.
2. The key principle is that it is the responsibility of management and those charged with governance of an entity to provide the information on an entity that is required by users. The audit report only accompanies the information provided by the audited entity itself.
3. More company specific information about the audit could be provided by the auditor, such as information on audit risks. It will be essential to clearly specify which audit risks should be disclosed. Should it be the key audit procedures that have been performed in response to the key business risks of the company or the risks of material misstatements identified by the

auditor as part of the risk assessment which might not be related directly to the key business risks of the company?

4. Corporate governance models differ from one jurisdiction to another, and given these differences, future auditing standards should be sufficiently flexible to accommodate for any corporate governance model.

For further information on this FEE[1] letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,

Philip Johnson
FEE President

[1] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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Appendix: Responses to Questions

Issues Identified

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

The recent debate regarding auditor communication has highlighted the need to provide the public with more details of what an audit is and to provide more information on audit performance. FEE believes that it is important to carefully consider the arguments put forward and to reflect on which lessons can be learned from the financial crisis, as the debate has shown that the way that auditors communicate is a political issue as well as a technical issue. Even if auditors have been criticised during the financial crisis for not being sufficiently sceptical, audit remains of essential value to society in today's changing economy as an independent check of the validity of the financial information provided to users in the markets. Undoubtedly, now is the right time to consider whether there is scope for enhancing the role of the audit and of the auditor to maximise their contribution to the world economy.

An important role of the audit profession is to add transparency and provide comfort as to the reliability of corporate reporting. Audit and auditor communication should develop alongside corporate reporting. Auditors should also explore the opportunities to fulfill their role of providing assurance in areas such as governance, sustainability reporting, corporate governance statements, etc. which brings together financial and non-financial reporting. Since the audit is an integral part of the financial system operating in today's rapidly changing world, it is essential to consider the role of the auditor in the financial reporting system, as well as the way that auditors communicate, in a dynamic way rather than in isolation.

The development over the years has significantly changed financial reporting and changes in the reporting content and in the format of financial statements are likely to continue. Recent criticism of the financial reporting framework suggesting that increasing complexity reduces the readability of financial statements[2] has shown that the financial reporting framework also needs to be reassessed in order to provide financial information that is of high quality and of benefit to its users. The financial reporting framework and its application do impact the audit and can have consequences for auditor reporting. The auditing standard setter should therefore closely monitor the developments in this area in order to provide input that ensures the auditability of financial statements and to ensure audit standards are sustainable in a changing world.

With these interrelations within the financial reporting system in mind, FEE subscribes to the view that there is a need to reassess auditor's communication, as improvements can clearly be made to the way that auditors convey their conclusions of the work done. The recent criticism in relation to the role of the auditor is not as much related to the performance of the audit but more in

[2] Such as through the IASB commissioned research project carried out by the Institute of Chartered Accountants in Scotland and New Zealand Institute of Charted Accountants: "Loosing the Excess Bagage – Reducing Disclosures in Financial Statements to what is important", July 2011 http://www.icas.org.uk/site/cms/download/AA/2011/Jul_11_Losing_the_excess_baggage.pdf, as well as addressing "*… the criticism of some stakeholders that disclosure requirements in IFRSs are too voluminous and not always focused on the right disclosures…*" in the IASB Agenda Consultation, July 2011.
The IAASB project on The Evolving Nature of Financial Reporting: Disclosures and its Audit Implications also raised valid criticism on the complexity and readability of financial statements disclosures.

relation to how auditors communicate the results of their work. Any improvements made should ensure that the quality of auditor's communication is enhanced and meet user needs in the same way that the performance of audit is generally perceived to be of quality.

It should also be ensured that any solutions are sought in a global context and that the explicit views of the users of auditor's communication are taken into account. Close cooperation between the audit profession at a global level and its stakeholders, including users and various regulators is therefore needed to achieve a truly sustainable solution that will be perceived as bringing considerable added value to audit communication.

Question 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?

As mentioned in our response to Question 1, FEE believes that changes should be introduced to improve the communicative value of audit reports. The aim should be to provide better information, instead of merely providing more information to the users.

In identifying areas for improvements, it is essential to maintain the key principle of "*an audit is an audit*". This principle is crucial for the performance of the audit, as FEE strongly believes that the current ISAs ensure this and are already proportionate in the way that they can be applied to audits of all companies.

However, users of audit reports along with their information needs differ significantly. Recent consultations have shown that various stakeholders express a clear interest in limiting the information gap by having more company specific audit reports. This will require change to the current standard audit report that contains identical generic text from one company to another and from one year to another. The current standard audit report has also been criticised for being defensive and difficult to understand. Having these developments in mind, FEE believes that a standard audit report should be maintained, but can see merit in including more company specific information and less generic information, as further discussed in our responses to Questions 3, 4 and 8. In our view, these initiatives would be responsive to the criticism expressed by users of audit reports.

For financial statements, for instance in accordance with IFRS[3], primary users have been identified as potential investors, lenders and other creditors. The IASB notes that individual primary users have different, and possibly conflicting, information needs and desires. The IASB will seek to provide the information set that will meet the needs of the maximum number of primary users and invite companies to supplement with information that they may find relevant for their users in any particular area. The needs of other users, including a minority of primary users as well as management and regulators, may also be served through financial statements aimed

[3] See for instance the IASB Conceptual Framework for Financial Reporting 2010, paragraphs OB5-OB8, September 2010.

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at the primary users, but not in full. These users need to consider pertinent information from other sources as well.

Given that ISAs are to be framework neutral, and a clear reference to IFRS definitions should be avoided, users of financial statements and thus of audit reports are not necessarily restricted to investors, lenders and other creditors, but may be broader. In any case, as the audit report only has value to users when attached to a specific set of financial statements, the users of audit reports and users of financial statements will naturally be the same.

As part of this debate, it is also important to reiterate the key principal that it is the responsibility of the company to provide users with the information that they require and the auditor cannot be seen to take the place of the company.

All classes of users would be affected by changes to the audit report. However, the users that would be most affected would be the users that are most familiar with audit reports in general, which would be professional users, such as financial analysts and investors. These users may also be the users where the information gap is most prominent.

There may be an opportunity at this point in time to consider, whether with the developments in financial reporting being more specialised, a standard "*one size fits all*" audit report remains appropriate, when looking forward. The reason would be that it appears that the users of audit reports are asking for something different, as is the case for financial statements.

Audit reports are part of the external reporting done by auditors. Not all information gathered by auditors during the audit is suitable for being made public, as some information is produced for internal purposes only, whilst other information is produced with the aim of meeting specific information needs of regulators or other users. In this context, there may be an extended role for audit committees or supervisory boards to publicly report on some of these areas, as further discussed in Questions 11-12 below. Such additional reporting from the company itself, along with more focused reporting from the auditors, can contribute to reducing the current information gap, as identified in the Consultation Paper. However, this development would be under the responsibility of regulators or other relevant bodies responsible for setting corporate governance measures for companies. In this regard, the IAASB is encouraged to work with the relevant regulators to facilitate sustainable initiatives in this area to the benefit of all stakeholders.

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

The key principle of "*an audit is an audit*" applies to all audits, regardless of the size of the company, and whether or not the company is listed. The current ISAs already cater for this, as they are proportionate and can be scaled for the performance of an individual audit.

However, the current standard audit report in accordance with ISAs is not intended to be scalable. As further discussed in Question 8, additional company specific information on audit risks could be included in the audit report (or elsewhere) and would be more extensive for companies where the business model as well as the audit is complex and where the need for transparency on these matters is most prominent. For companies with a limited number of risks, the additional disclosures will be equally limited. This approach would introduce some proportionality in the audit report without introducing a difference in the requirement to a binary pass/fail opinion on all audits. This proportionate approach could be more clearly described in guidance related to audit reports inspired by how ISAs normally comments on "*Considerations specific for smaller entities*".

Differences between audit reports may also stem from other sources, such as the diversity in practice driven by legal, cultural or commercial reasons at national level. Given the developments in financial reporting, as well as the performance of audits being scalable, the proportionality in audit reports will emerge in practice and could be based on best practice examples from various jurisdictions.

Exploring Options for Change

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

Question 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?

The audit report is the core deliverable from the auditor. Although more entities are being exempted from audit, voluntary audits are still being provided, and the audit will remain the core service of the audit profession. In order to preserve this core service, the comments on the usefulness of the audit report and criticism on the current audit report being too long and defensive with too much boilerplate information should not be disregarded. Suggestions for improvements from the users should be carefully considered as FEE believes that there is merit for rethinking the format and the structure of the audit report. Changes made should also be sustainable to allow for continuous changes to reporting and society in general.

Users have indicated that the main message that they seek from an audit report is the opinion of the auditor on whether or not the financial statements are reliable and in accordance with the requirements. Having this explicit request to maintain the "pass/fail" nature of the audit report in mind, FEE agrees that the opinion should be given more prominence and therefore might be moved up from its current position.

It is essential that the opinion clearly states the level of assurance given. Although the current wording of the opinion may use too much jargon to be understandable to the non-technical user, the jargon used relates to both financial reporting matters as well as technical audit terminology. Whether it is one or the other, the technical jargon should be reduced to a minimum with the aim of making it as understandable as possible for the reader.

Overall, FEE is of the view that there may be scope for reducing the current audit report in length in some circumstances. This would respond to the criticism of the audit report being defensive and using boilerplate language. Reducing this generic information in the audit report will also underline that an audit is not a generic product, but is a service that, although based on the same sound principles, is tailored to each specific audited entity. It will underline that the audit report is the result of audit procedures that are based on the knowledge and experience of the auditor of that particular audited entity.

Question 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?

The paragraphs on responsibilities of management and of the auditor have been added and expanded over a number of years. These paragraphs are by some seen as boilerplate information, defensive and adding to the length of the audit report without providing any value to the readers of the audit report. However, users of financial statements and of the accompanying audit report need to understand the differentiation of these respective responsibilities.

As mentioned in our response to Question 4, FEE believes that there may be room for improvements by reducing the length of the audit report. The responsibilities for management as well as for the auditor are for statutory audits often established in law or regulations, but it may, in some jurisdictions, be different in relation to the auditor’s responsibility in case of voluntary audits. As a result, the paragraphs could be replaced by a brief reference to the relevant laws and regulations. This would then mean that, in jurisdictions where responsibilities of management and of the auditor set forth in law or regulations are equivalent in effect to those set out in the ISAs, the auditor would be able to replace these paragraphs with a reference to the applicable law or regulation. The reference should be to a source that is easy accessible and publicly available, for example to a website.

B. Other Information in Documents Containing Audited Financial Statements

Question 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?

Auditor’s responsibility regarding other information should be clear, but should not necessarily be explained in detail in the audit report.

Question 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?

If included, the statement should be a factual and clear explanation of the responsibility of the auditor to state in the audit report if any material inconsistencies exist in the other information.

Reporting in this respect should be done by exception, in line with the current requirements in ISA 720[4] for the auditor to take specific action. This could be further considered in the current project on revision of ISA 720, where it is discussed whether material inconsistencies should be assessed in relation to the knowledge of the auditor of the entity or in relation to the identification of material inconsistencies with the financial statements, as currently required.

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

Question 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.

FEE believes that the auditor could provide more information on their audit in certain areas as detailed in the paragraphs below. However, it is important that any proposals are thought through to ensure that they meet users' needs and do not have any negative consequences.

Audit Risk

Additional information about the audit could entail that some information about the risk assessment made by the auditor is included in the audit report. The relevance of additional disclosures on the various potential areas where disclosures have been requested as highlighted in paragraph 62 would in our view be:

- Key areas of material misstatement, including critical accounting estimates:
  It is the responsibility of management to disclose all required information in the financial statements, and these responsibilities should not be blurred by any requirement for the auditor to take over the company's responsibility for these disclosures. All disclosures that relate to the business model, business risks, choices of options for accounting policies, sensitivity analyses etc. should therefore be disclosed by the audited entity itself.

  However, in response to requests from users, there could be room for additional disclosures on audit risks. It will be essential to clearly identify which audit risks would be relevant to disclose, as audit risks may or may not be related directly to the key business risks of the company. However, the auditor should not be providing information on matters that goes beyond what is already included by the company in the financial statements. In our view, two categories of audit risks should be considered. However, in order to have consistent application and to meet users' expectations, it should be explicitly stated which of these audit risks are to be disclosed. The two categories are:
  a. The key audit procedures that have been performed in response to the key business risks of the company (i.e. business risks that are already disclosed by the company in accordance with the financial reporting framework, for example the description of

[4] ISA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

principal risks under article 46 of the 4th directive within Europe or on qualitative and quantitative disclosures on financial instruments under IFRS 7[5]).

b. The risks of material misstatements under ISAs. These audit risks might not be aligned with the business risks disclosed by the company.

- Significant auditor judgement, such as in relation to the company's application of the going concern assumption:
  Going concern considerations is an area where emphasis of matter paragraphs are used to a great extent already today, and a number of stakeholders, including FEE[6] in Europe, have underlined the importance of going concern considerations by companies as well as by the auditor, during the financial crisis. In this regard, there does therefore not seem to be a need for amendments to the current requirements in ISAs. If financial reporting standard setters believe that the current disclosures regarding going concern by the entity itself should be improved, then this should be addressed within the financial reporting framework and not by the auditing standard setter.

- Materiality
  Materiality applied by the auditor during the audit consists of the quantitative level used as well as qualitative information about how the concept of materiality is applied. FEE believes that disclosure of the quantitative materiality level itself used for example in relation to sample sizes would not be perceived by users as adding value or reducing the information gap. Therefore, there seems to be no benefit in disclosing the materiality level itself. Also, only disclosing the quantitative materiality level without qualifying it with additional explanations could be taken out of context and will not meet the information needs of users.

  However, in relation to the concept of materiality, it may not be commonly understood, even by professional users, that misstatements identified in the audit which are (individually or in aggregate) lower than the materiality level set by the auditor may not be corrected by management. In this context, there may be a need for further educational initiatives that explain this concept, as it does not seem appropriate to include detailed information about this matter in each audit report.

  Although there may be an opportunity to reduce the information gap on this particular matter by disclosing more information on materiality, it seems difficult to do so within each audit report, given that such an explanation would need to be extensive to provide a sufficiently balanced explanation of how the materiality concept has been applied in that specific audit. FEE would therefore be of the view that additional disclosures regarding materiality in the audit report would not result in value being added for the users given the extent of the disclosures needed.

- Internal controls
  The prerequisite for an audit is that management has implemented an internal control system that produces reliable financial information. Deficiencies detected by the auditor that contradict this initial presumption are already now reported to those charged with

[5] IFRS 7 Financial Instruments: Disclosures
[6] FEE INFO Paper Reminding Management and Auditors of Key Issues during Fragile Recovery from the Crisis, January 2010, http://www.fee.be/fileupload/upload/News%20Release%20Crisis%20PS%20VI%20100108812010581235.pdf

governance. If not resolved by management or those charged with governance, the auditor will consider the consequences for the audit, including audit reporting as a result of this non-compliance. Therefore, FEE does not believe that further disclosure is required.

- Areas of significant difficulty encountered during the audit and their resolution:
  As discussed in our response to Question 9 below in relation to "justification of opinion", FEE believes that there could be merit in considering whether additional disclosures on areas of significant difficulty encountered during the audit and their resolution might be of benefit to users.

Disclosures on any of these matters made by the auditor should be proportionate in nature, as they would be most relevant where a high level of transparency is requested by users, for instance for public interest companies.

Reference is also made to our response to Question 11 below, as the positioning of this additional information will depend on the corporate governance systems in each jurisdiction. These systems vary significantly, even within Europe, and in some jurisdictions it may be required that the audit committee, instead of the auditor, provides this additional information. Regardless of who provides the information, it should be ensured that the information meets the needs of users and boilerplate information, which users have clearly stated is not of value to them, should be avoided.

It should also be ensured that the information disclosed does not clutter already lengthy documents. In this regard, it will be worthwhile monitoring the developments within integrated reporting that also aims at reducing the information gap between providers and users of financial information.

Increased use of "Emphasis of Matter" paragraphs

FEE believes that emphasis of matter paragraphs should remain as paragraphs that are used to draw users' attention to matters that are of such importance that they are fundamental to users' understanding of the financial statements and the audit. Emphasis of matter paragraphs should therefore remain as they are today and the application should be in situations of major importance.

Emphasis of matter paragraphs should not be misused to compensate for the increasing complexity of financial statements. This increasing complexity is an issue that should be addressed as a matter of urgency, but this should be done by those responsible for the financial reporting framework and by preparers so that readable and understandable financial information is provided to stakeholders. This problem can not and should not be solved by the auditing standard setter through imposing additional reporting responsibilities on auditors.

Question 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 French requirement on "*justification of opinion*" is one example of how to approach the reduction of the information gap. The current French requirement states that the justification must "*… enable the user of the report to obtain a better understanding of the reasons behind the statutory auditor's opinion on the financial statements"*. This principle appears appropriate and could be further explored. In doing so, comments and suggestions for improvement due to the diversified and inconsistent application seen in French audit reports should be carefully considered in order to avoid generic boilerplate language and to ensure that the request from users of providing more decision-useful company-specific information is de facto met.

It should be made sufficiently clear that this additional "*justification of opinion*" acts in conjunction with the pass/fail nature of the opinion as well as with qualifications and emphasis of matter paragraphs in the audit reports. As mentioned in our response to Question 8, emphasis of matter paragraphs should continue to be used in exceptional circumstances and would then appear in the audit report in addition to any justification of opinion that would be generally required for all audits. Also, it should be avoided that "justification of opinion" is introduced to facilitate users' navigation within complex financial statements, as mentioned in our response to Question 8.

Given that corporate governance systems differ from one jurisdiction to another, it may be required at national level that these additional justifications of the auditor's opinion are included in the report by the audit committee of the audited company. Whether the audit committee or the auditor provides this additional information, the overall aim should be to provide additional information to the users about the key issues that have been identified and resolved during the audit.

Question 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.

FEE believes that disclosures about the entity should be provided by the company itself and not by the auditor. It is first and foremost the responsibility of the company to meet the needs of users and they should provide the relevant disclosures regarding for example critical accounting policies.

However, FEE also recognises that the auditor possesses information that users would like to see in the public domain. Whilst the reporting responsibilities of management should be maintained, the auditor could provide additional information, as discussed in Question 9 above. When doing so, it should be ensured that the auditor does not act as management or those charged with governance and does not disclose information that should have been disclosed by the company itself.

Also, it should be noted that the auditor already has an ethical responsibility not to be associated with misleading information. If disclosures by the company are not appropriate and thus could be misleading, the auditor would need to consider the consequences for the audit report.

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

Question 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.

Audit is part of the overall governance of the audited entity and it is therefore relevant to consider whether improvements to auditing standards are needed to more properly place audit in the broader context of corporate governance.

The depth of knowledge pertaining to each individual audit client that an auditor obtains during the course of an audit places the auditor in an optimal position to provide support to those charged with governance, for instance the audit committee. By keeping them informed of significant matters and communicating with them on a regular basis, the auditor can greatly improve their capacity to fulfill their oversight role.

Past performance is the focus of the financial reporting system and the potential for historical financial statements to be used to predict or guarantee future performance is limited. In evaluating past performance, assumptions are made by the directors that the assets and liabilities reported will continue to be used in the business for at least another year. Auditors evaluate the directors' assumptions and report to shareholders if they disagree with them or believe that there are important matters to draw the shareholders' attention to.

It is important to maintain these boundaries between the various stakeholders and to keep in mind that the management and the audit committee are best placed to provide information about the business and the risks that it faces.

As noted in the Consultation Paper, there is a variety of corporate governance models across the different jurisdictions. Even within Europe, at least four models can be identified. The differences between the various models are related to:

- The prominence of institutional investors and major shareholders;
- One-tier or two-tier boards and common practice for appointment of members;
- Involvement of and practice for responsibilities of audit committees.

In Europe, the European Commission has recently conducted a consultation on an EU Corporate Governance Framework[7], where preliminary comments have revealed more details about the different models. Therefore, the IAASB is encouraged to monitor the outcome of the European

[7] The European Commission Green Paper on "The EU Corporate Governance Framework". The outcome of the consultation is currently expected in November 2011. http://ec.europa.eu/internal_market/company/docs/modern/com2011-164_en.pdf

Commission consultation as this can provide further input when considering the approach in the auditing standards in this regard.

With regard to business risks, the company could include additional information in their annual report on their going concern assumptions and details on the key business risks that impact the business in the longer term. The auditor could report on this additional information which would preserve the boundaries between the entity and the auditor, and as discussed in our response to Question 8, more information could be provided about the audit risks.

Any of the models discussed in Part D of the Consultation Paper, whether it is the UK enhanced corporate governance model, the German/Danish long form report, or hybrids of these, are all valid in their jurisdictions. It is important to ensure that any new initiatives within the auditing standards are feasible, applicable and sufficiently flexible regardless of the corporate governance model.

The remit of the auditing standards should also be kept in mind when defining any new measures as, for instance, it will be out of scope for the auditing standard setter to set requirements for corporate governance in general, including detailing the reporting responsibilities of audit committees.

In this context, all stakeholders should note that additional information provided by the auditor cannot compensate for a complex financial reporting framework that responds to the increasing complexity of the business models within audited entities. The general concerns expressed, i.e. that financial statements are not readable, should be noted and solutions should be identified within the financial reporting framework. The audit is then the second phase. Any changes within the current audit model, whether it is in relation to performance or reporting should be introduced without expectations that such changes can reduce the complexity of financial reporting.

Question 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?

As noted in our response to Question 11, corporate governance models differ from one jurisdiction to another, and given these differences, the auditing standards should not prescribe one corporate governance model over another. Instead, the auditing standards should be sufficiently flexible to accommodate for any corporate governance model.

As mentioned in our response to Question 2, financial reporting has changed significantly and will continue to change over time. The audit should be responsive to this and should change with significant changes in financial reporting.

The IAASB is therefore encouraged to monitor developments in financial reporting as well as within corporate governance, as referred to in our response to Question 11. Based on this, the IAASB is encouraged to work closely with other relevant stakeholders to achieve solid and sustainable solutions within the auditing standards.

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

As discussed in our response to Question 11, noting the differences in corporate governance systems, such as assurance report could be relevant. It should be based on a general framework set out by the relevant regulators or standard setters and should be based on a request from users wishing to acquire such additional assurance services.

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

Question 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 areas suggested are in relation to corporate governance arrangements, the sustainability of the business model, enterprise-wide risk management, internal control and financial reporting processes and key performance indicators.

FEE believes that management or the audit committee could extend their reporting on such matters. The auditor could then provide additional assurance provided that there is a general request from the market to deliver such assurance services. The information may not necessarily be included in the financial statements, but could be provided outside the financial statements. The assurance given by the auditor on these matters should be separated accordingly.

The level of involvement could vary from no involvement to the auditor providing assurance on the entire content of the annual report, and should depend on what users require. Further debate with all relevant stakeholders on proposals for additional management reporting on these matters would be needed to balance the information needs of the investor community. The additional disclosed business information should also not be detrimental to the commercial interests of the company. It is also important that assurance services are developed in response to these market requests for additional information.

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

As mentioned in connection with the consultation on the IAASB Strategy and Workplan 2012-2014, we encourage the IAASB to monitor the developments in these areas, especially in relation to financial reporting and sustainability issues, as such additional assurance services are becoming more widespread. In this regard, the developments regarding integrated reporting should be given specific focus. There may be a need for the auditing standard setter to actively engage in the debate and develop appropriate assurance standards.

Secondary areas that deserve some attention without giving them top priority, would be in relation to preliminary announcements and non-financial information, including corporate governance statements.

Implications of Change and Potential Implementation Challenges

Question 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.

Given the rapid developments in technology, providing additional information has become easier, although it still may entail additional costs to do so. FEE fully subscribes to the aim of improving the quality of the information provided to users of financial statements. Increasing the quality of the information provided rather than the quantity would be most efficient to all market participants, and would, in our view, be a more appropriate way to support investors in their decision-making process.

In this regard, it is important that the benefits of any change should outweigh the costs. Changes should only be introduced if this principle is met. The benefits would clearly be that the users' needs for information about the entity and the audit are better served by the change. Also, benefits could arise from an increase in audit quality.

In general, it may be too premature to identify costs and benefits of the suggested models in Section III of the Consultation Paper. They would need to be more clearly described before costs and benefits can be identified. FEE encourages the IAASB to carry out this impact assessment, in line with its earlier agreed strategy to do such assessments, when proposing changes in a future exposure draft.

Question 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.

Any changes introduced should be proportionate. The implications should therefore also be proportionate as this will ensure that no unduly administrative burdens are placed on companies where benefits are not expected to materialise.

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Question 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?

It should be carefully considered whether and how the changes explored in Section III operate in conjunction with each other. For instance, increased use of Emphasis of matter paragraphs and introducing "justification of opinion" as in France may result in duplication of requirements and of information disclosed.

Taking note of the recent comments made by various preparer and user groups in other consultations[8], the changes that appear to be most responsive to these comments relate to the options explored in Section III, parts A in relation to the format and structure of the audit report itself.

Retaining the clear "pass/fail" nature of the audit report has received great support. Any changes should therefore ensure that this clear message from the auditor to the users of the financial statements and the audit report remains as it is today.

The focus should be on reducing the "information gap" rather than the "expectation gap". Without disregarding the expectation gap, there may be greater value in such a prioritisation, as the expectation gap will most likely continue to exist. Instead, the clear aim should be enhancing the value of audit through better, instead of more, communication.

Question 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?

As mentioned in our response to Question 18, FEE strongly supports the aim of reducing the "information gap" as it is of great importance that the audit profession is responsive to requests from the market and its stakeholders.

FEE encourages the IAASB to work closely together with other parties that are exploring options for change in auditors' reporting, such as the European Commission and the PCAOB.

[8] See the outcome of the consultation in the EC Green Paper on Audit Policy and the summary of responses on the IOSCO Consultation Paper on Auditor Communication, both in 2010.

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