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Mr. James Gunn
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28 October 2011

Dear Mr. Gunn:

Consultation Paper – Enhancing the Value of Auditor Reporting: Exploring Options for Change

Ernst & Young Global Limited, the central entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change* (Consultation Paper), issued by the International Auditing and Assurance Standards Board (IAASB).

The global financial crisis and other related events have undermined investor confidence in corporate financial reporting and challenged the usefulness of the auditor's report and, more broadly, the relevance of the financial statement audit. In the wake of the financial crisis, we believe it is an opportune time to engage relevant stakeholders in a dialogue on ways to enhance the value of auditor reporting in order to contribute to investor confidence, enhance financial stability, support global consistency and comparability in auditor reporting and build a strong foundation for global capital markets. We therefore strongly support the IAASB's efforts to explore options for change to auditor reporting.

In general, we believe that changes in the auditor's reporting model should adhere to the following principles:

- Management, and those charged with governance, are the original source of disclosure of information about an entity. The auditor neither should be expected to nor should disclose, discuss or reference information not otherwise disclosed by management or those charged with governance.
- Audit quality should not be negatively affected by changes to auditor reporting. The relationships between the auditor and management, as well as those charged with governance, should not be jeopardized or otherwise constrained in a manner detrimental to audit quality.
- Changes to auditor reporting should be perceived to narrow, or to at least not expand, the expectations gap.
- Changes to auditor reporting should be viewed by investors and other relevant users as valuable and beneficial, and the costs of any changes should be reasonable in comparison to their perceived benefits.
- Changes to auditor reporting should not create investor confusion. Changes should not:

- Raise any questions about the nature of the auditor's opinion, particularly when the auditor is expressing an unmodified (i.e., unqualified) opinion on the financial statements.
- Result in conflicts, either actual or perceived, between information provided by management, or those charged with governance, and the auditor.
- Result in subjective information or commentary provided by the auditor that may be viewed as misleading, subject to misinterpretation or misunderstood by the intended users.

Although we are supportive of changes that are consistent with the above principles, we believe that certain changes can be more readily implemented in the near-term, while other options may require further research and collaboration before any standard-setting activities get under way. For example, near-term changes to the standard auditor's report might include the use of emphasis of matter paragraphs to highlight important areas of the financial statements, more detailed descriptions of auditor responsibilities and clarification of certain terms that have been the source of confusion for investors. Other options, such as reporting by those charged with governance or auditor reporting on other information in documents containing audited financial statements, present challenges due to the differences that exist at the jurisdictional level and we encourage the IAASB to monitor and collaborate with any jurisdictional efforts to explore change in these areas. In addition, options for auditor involvement with or assurance on other subject matter may present challenges in determining the extent of demand and value across entities and user groups.

Regardless of the options pursued and the timeframe, we believe there is considerable merit in a single standard auditor's report that would be used for all entities globally, as is presently contemplated in ISA 700. In our view, all users of financial statements, regardless of the type or size of the entity, should have a consistent communication in the auditor's report about the responsibilities of management and the auditor, and a clear expression of the auditor's opinion on the financial statements. ISA 700 provides a global baseline auditor's report that allows for other reporting responsibilities to be communicated within the auditor's report, as may be required by some jurisdictions.

In any event, we believe that it is important to recognize that the auditor's report is just one element in the suite of information provided to users of financial statements. Attempts to resolve issues in corporate financial reporting solely through changes in auditor reporting may not be successful in addressing the 'information gap' experienced by some users, and could result in an inappropriate expansion of the auditor's role. In order to make meaningful progress in closing the expectations and information gaps, we believe that a holistic approach involving preparers, regulators, standard-setters and auditors is needed to effect changes to auditor reporting. As part of this holistic approach, we expect that the IAASB and other standard-setters and regulators would need to undertake collaborative efforts for continuous improvement to the nature and extent of financial statement disclosures to balance the need for transparency with the desire by some users for additional information about significant areas of risk in the financial statements.

We believe that any proposed changes to auditor reporting should be subject to a cost-benefit analysis (including implications for auditor liability) based on the exact nature of the changes proposed. We recommend that an analysis also be performed to determine the applicability of such changes to non-listed entities. Factors to consider in determining the implementation requirements of such changes include the value of and demand for such changes in relation to the costs, and how they relate to the different types of non-listed entities and their users.

Responses to the specific questions in the Consultation Paper for which the IAASB is seeking feedback are set out below.

Section II – Issues Identified

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

The Consultation Paper clearly articulates the issues regarding the perceptions of auditor reporting today and how those issues relate to the expectations gap. The fact that the expectations gap results, in part, from the manner in which the auditor communicates findings to users of financial statements suggests the need to pursue changes in the auditor reporting model.

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?*

Financial reporting frameworks are becoming increasingly complex. On one hand, some users are becoming overwhelmed with longer and very detailed financial statements, and are seeking ways to better synthesize available information. On the other hand, certain users, in particular more sophisticated investors, believe that additional information about the entity, its financial statements and its risks would assist them in making informed decisions. This so-called information gap largely relates to listed entities.

We have concerns about the auditor reporting information that is best reported by management and those charged with governance, as they are in the best position to address the information gap by providing the information that investors are seeking. In turn, the auditor is in the best position to lend credibility to that information. We are supportive of an approach where management and those charged with governance provide disclosures for which the auditor has defined responsibilities in terms of nature and extent of procedures to be performed. The respective responsibilities of management, those charged with governance and auditors with regard to the disclosures would require involvement of regulators and standard-setters to set relevant criteria and requirements. This would help to create a holistic approach to address the information gap.

To improve the communicative value of auditor reporting, we agree that potential changes in the auditor's report should be considered and may be beneficial, but we believe that changes in the auditor's report alone will not be sufficient to fully address the expectations gap. Generally, the ability for users to understand the reality of what an audit is, and what it is not, will require additional efforts beyond changes in auditor reporting. Specifically, it is likely that additional educational materials and communication efforts may be required, which the IAASB has stated are out of scope for the purposes of the Consultation Paper.

We believe that the users that are most affected by these changes differ depending on the nature of the entity. Please refer to Question 3 and 17 for further comments.

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

We believe that the auditor's report for general purpose financial statements of listed entities should be as consistent as possible across jurisdictions, as comparability is important to global investors. A global baseline auditor's report, such as the one in ISA 700, allows for other reporting responsibilities to be communicated within the auditor's report, as may be required by some jurisdictions.

Moreover, in our view, any consideration for listed entities should extend to public interest entities. Due to nature of their business, their size or special legal status, they typically have a wide range of stakeholders with similar information needs.

As to consistency in auditor reporting between listed and non-listed entities, the population and diversity of non-listed entities is broad, and therefore it is difficult to make a generalized statement regarding the applicability of auditor reporting changes to non-listed entities. Some non-listed entities are very large, complex organizations with financial reporting complexities rivaling those of a large listed entity. On the other hand, there are many thousands of small and medium-sized entities (SMEs) for which we believe users of financial statements have generally not voiced the same concerns about the need for additional information as have users of listed entity financial statements. Nevertheless, we believe that it would be beneficial to have a standard auditor's report for both listed and non-listed entities, if possible. For example, in some jurisdictions, both listed and non-listed entities are subject to statutory filing requirements with a common regulator. In this situation, we believe it would be beneficial to have a standard auditor's report.

Please refer to Question 17 for further comments on the applicability of specific changes and implementation considerations for different types of entities.

Section III – 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?*

The current debate about changes to the auditor reporting model appears to be focused less on the positioning of the various elements of the standard auditor's report than on providing additional information about the audit process. Therefore, we do not believe the location of the auditor's opinion or other content within the standard auditor's report is a matter of significance for the IAASB to address in any changes to auditor reporting.

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 expectation gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?*

We believe that the following elements are worthwhile considering in improving the clarity of the standard auditor's report:

- Clarifications/definitions of reasonable assurance, materiality and material misstatement
- Discussion of auditor's responsibilities related to fraud
- Discussion of management's and auditor's responsibilities for other information in documents containing the audited financial statements (please refer to Question 6 for further comments related to auditor responsibilities for such information)

Although such changes would add to the length of the auditor's report, the costs of such changes would not be significant. We also believe that the standard auditor's report should be self-standing, and that no portion of the content of the report should otherwise be relocated, for example, to a website. An auditor's report that is not self-standing, in our opinion, may have the unintended consequences of widening the expectations gap.

However, any changes in the standard language of the auditor's report should be concise so as to reduce the risk that the auditor's report becomes too lengthy, and essentially contains too much "fine print" that would be counter to the objective of improving the communicative value of the report by helping users to better understand the audit process.

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?*

Yes, we believe that the addition of language to the standard auditor's report describing the auditor's responsibilities for other information in documents containing the financial statements is a worthwhile improvement and would be of benefit to users, and that the costs of implementation would not be significant. While the auditor's responsibilities are currently addressed in the ISAs, such a statement in the auditor's report would help to more clearly communicate the nature of the other information and the auditor's responsibilities in regards thereto.

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 that it would be a meaningful improvement for the auditor's report to include a description of the auditor's responsibilities for other information in documents containing audited financial statements. Under extant ISA 720, the auditor's procedures consist of reading the other information to identify material inconsistencies, if any, with the audited financial statements and taking appropriate actions if, upon reading the other information, the auditor becomes aware of an apparent material misstatement of fact. We believe it would be appropriate for the auditor to also state a conclusion in the auditor's report on the results of the procedures performed.

We also acknowledge that the IAASB has undertaken a project to revise ISA 720, which may expand the scope of other information subject to auditor responsibilities and also may call for greater auditor judgment in considering the contents of other information. In making any final revisions to revised ISA 720, we encourage the IAASB to consider the comments received on this Consultation Paper as they relate to the auditor's responsibilities for other information in documents containing financial statements. In particular, in view of the potential for expansion of the auditor's responsibility for other information, we encourage the IAASB to carefully consider the nature of any statement in the auditor's report about the results of the auditor's procedures regarding the other information. Unless clear guidelines were established for the specific content of such a statement, it could be misinterpreted as providing implicit assurance on the other information.

If increased involvement with, or separate assurance on, the other information is desired by users, we are more supportive of the alternatives included in section E of the Consultation Paper as discussed further in our responses to Questions 14 and 15 below.

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

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.*

In general, we are not supportive of the concept of the auditor providing additional information about the audit in the auditor's report on the financial statements because we believe the actual or perceived benefits of providing such information do not outweigh the costs and risks. In applying our principles for change in auditor reporting stated earlier in our letter, we believe that, in particular, the risk of investor confusion is quite significant because providing information about the audit may:

- Raise questions about the nature of the auditor's opinion, particularly related to any discussions of materiality or risks of material misstatement
- Result in conflicts, either actual or perceived, between information provided by management and the auditor, particularly related to the auditor's assessment of risks and judgments versus the risks and judgments disclosed by management
- Assume a level of investor knowledge about the audit process that does not exist and therefore such information may be misleading or misinterpreted

However, we are supportive of potentially using the auditor's report as a vehicle to help convey the important areas of the financial statements to users. Such an approach may involve increased use of emphasis of matter paragraphs for the purpose of highlighting and directing the reader to certain areas within the financial statements that:

- The auditor believes are significant to the users' understanding of the audited financial statements (e.g., disclosures involving estimates or accounting judgments); and/or
- Received emphasis in the audit process due to higher risks of material misstatement or the application of significant auditor judgment.

In accordance with the principles for changes in auditor reporting stated earlier in our letter, we believe that the increased use of emphasis of matter paragraphs should not include:

- Information about the entity that has not otherwise been disclosed by management
- Information or a format that may appear to qualify the auditor's opinion
- Specific information about the audit process or procedures for areas of the financial statements

In addition, we believe that this approach captures the key benefits of the French "justification of assessments" model (please refer to Question 9). However, we recognize that such an approach, which is beyond the current scope of the ISAs for emphasis of matter paragraphs, would require IAASB efforts to create a clear framework and requirements as to the criteria for and the contents of the emphasis of matters paragraphs to highlight areas of the financial statements. We have also identified the following implementation considerations and challenges regarding the use of emphasis of matter paragraphs that we believe the IAASB should consider:

- *Risk of "boilerplate" information*: With the anticipated consistency and comparability over time, this approach may result in what is viewed to be "boilerplate" information, especially for a given entity or group of entities in a given industry sector. However, the same result may occur with any of the approaches to providing auditor commentary. Further, even though the matters discussed using this approach may become standardized, we believe that the information would still be useful. An entity may be faced with consistent issues over time (e.g., loan losses in a financial services entity), and therefore consistency in the auditor's discussions of such issues would also be expected.
- *Risk of lessening the importance of other areas of the financial statements:* This approach may run the risk that users will focus only on those areas that are the subject of the auditor's emphasis of matter paragraphs, with the unintended consequence that the rest of the financial statements are perceived as less important and not necessary for users to read.
- *Risk that financial statement disclosures are perceived as auditor-driven:* This approach may lead to a perception that the auditor is driving the content and extent of disclosures within the financial statements through the auditor's process for determining which areas of the financial statements to include in the emphasis of matter paragraphs.
- *Risk of lack of comparability across entities or jurisdictions (or across periods for the same entity):* There may be a tendency with this approach to benchmark or otherwise compare the areas highlighted in the emphasis of matter paragraphs, for example, across entities, sectors, jurisdictions or audit firms. There may be a risk of "meaningless" comparability, especially in the initial implementation of this approach. The expectation of comparability also may lead to a risk that if changes occur (even for a given entity) in areas discussed from period to period, the rationale for changes may not be readily apparent, which could lead to, for example, misinterpretation by users of why an area of emphasis was included in one period and not another.
- *Risk of increased auditor liability:* This approach may be viewed as increasing auditor liability, for example, if a significant issue arises after the issuance of the financial statements, and this issue (or the possibility of its occurrence) was not highlighted in the emphasis of matter paragraphs of the auditor's report.

Notwithstanding these implications and challenges, we agree with the potential benefits stated in Paragraphs 60 and 61 of the Consultation Paper. At a minimum, an appropriate implementation of emphasis of matter paragraphs would help users navigate increasingly complex financial statements. The use of emphasis of matter paragraphs could also contribute to the quality of financial reporting by management and those charged with governance through increasing focus on areas that would be subject to inclusion in the auditor's emphasis of matter paragraphs.

Despite the fact that required disclosures under the financial reporting frameworks are getting longer and more complex, emphasis of matter paragraphs in the auditor's report should not be viewed as a substitute for appropriate disclosure of significant issues by management. However, some users have indicated that these required disclosures are becoming increasingly difficult to understand and are viewed, in some cases, as creating unnecessary clutter in the financial statements. Therefore, we continue to support parallel efforts (and encourage IAASB collaboration with such efforts) to challenge the financial statement disclosure requirements of the financial reporting frameworks to balance the need for transparency with the need to facilitate the users' identification of significant matters within the financial statements and disclosures.

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.*

We believe that the primary benefits of the French "justification of assessments" model are the ability of the information provided by the auditor to serve as 1) a navigational aid in reading the financial statements and 2) an alert of important matters within the financial statements. These are also included in the benefits cited by the recent French survey on the model, which is referenced in the Consultation Paper. The French survey also reported challenges that included the users' ability to understand and fully appreciate the descriptions within the information provided by the auditor. This challenge is consistent with our view that, although some may view a limited description of auditor procedures as responsive to investor calls for more information about the audit process, such descriptions, which may be brief and contain language related to the audit process, may not be valued and may in fact be subject to misinterpretation.

Please refer to Question 8 for further comments on an approach that uses emphasis of matter paragraphs in a manner that we believe captures the benefits of the French "justification of assessments" model.

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

We believe that any changes to the reporting model that require extensive subjective commentary from auditors, which would be representative of the specific views or impressions of the auditor, are not appropriate for general purpose reports. For example, we do not believe that the auditor should provide ratings or commentary on the quality of the entity's processes or policies (such as internal controls, accounting policies, financial reporting processes, critical accounting judgments, the governance structure or risk management) as generally accepted criteria are not available to investors to understand the context of the auditor's evaluations.

In evaluating this option, we believe that it may have a detrimental effect to audit quality for the following reasons:

- Relationships with management and those charged with governance may be jeopardized as there may be disagreements between the auditor's insights and the entity's views. Such disagreements may result in a desire for the auditor and the entity to reach a common view, which may result in the perception that the auditor's independence is jeopardized, or that the auditor is driving the financial reporting process.
- This approach could drive a significant amount of time spent on reporting, which would reduce time spent on the audit itself, given the expectation that reporting deadlines would not be extended.
- Due to the risk of inconsistent implementation, this approach would likely result in the implementation of central monitoring and processes by the audit firms to review

commentary of this nature prior to its issuance. This would potentially remove focus or time from other audit quality and risk management programs and processes.

Based on the above, when evaluating this option from a cost-benefit perspective, we believe that this option particularly has both significant costs and risks that would tend to outweigh any actual or perceived benefits.

If investors and other users are supportive of this approach because they are seeking assurance on specific aspects of an entity's financial reporting process or the measures that are used to manage the business, we are more supportive of the alternatives proposed as other assurance or related services on information not within the current scope of the financial statement audit, as discussed further in our responses to Questions 14 and 15 below.

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 concept of the enhanced corporate governance model described in the Consultation Paper as it is consistent with the holistic approach to corporate reporting and with the principles for changes in auditor reporting discussed earlier in our letter.

We agree, however, that the enhanced corporate governance model assumes that audit committee functions exist and successfully contribute to the quality of financial reporting for the entity. We believe variation exists in the roles, responsibilities and degree of quality of corporate governance models across, and even within, jurisdictions. We also believe that the perception by investors of the audit committee function differs across jurisdictions. We understand that investors in some jurisdictions may not be in favor of increased reporting by the audit committee and would prefer that auditors directly provide additional information without audit committee involvement. Other investors prefer both alternatives (i.e., an audit committee report with some degree of assurance, and an auditor's report). Therefore, although there could be merit to an enhanced corporate governance model, we would encourage the IAASB, as well as regulators and other standard-setters, to specifically seek input from those involved with corporate governance, including management and audit committees, as well as the intended users of the enhanced reporting to determine the demand and value of such a model.

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?

Please refer to our response to Question 11. In addition, we recognize that the IAASB does not set standards for reporting by those charged with governance and such standard-setting would require coordination with regulators at a jurisdictional level. Therefore, we believe that an enhanced corporate governance reporting model should not be a priority focus for the IAASB for near-term changes in auditor reporting.

We recognize, however, that in some jurisdictions an enhanced corporate governance reporting model is either implemented or contemplated, because it is achievable and workable. We encourage the IAASB to continue to monitor those developments with a view to achieve global convergence in the longer term.

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

Yes, we believe that assurance by the auditor on a report issued by those charged with governance, as included in the enhanced model for corporate reporting, can be appropriate. We believe, however, that the current views on the appropriateness of such assurance vary depending on the nature of the information to be covered by the assurance report, and whether criteria already exists for the auditor to be able to appropriately report on the information.

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.*

We are supportive of IAASB efforts to consider whether to expand auditor involvement to provide additional assurance on, or other auditor association with, information not within the current scope of the financial statement audit.

For any option that is considered for additional assurance or related services, we believe that the following considerations also are relevant:

- The demand for the assurance or related service should be evaluated to determine that sufficient demand exists, and to understand the perceived value of the additional assurance or service.
- It should be determined whether the auditor has the necessary skills to perform the service. For example, assurance or other services related to enterprise risk management may require a special skill set.
- The reporting for any additional assurance or related service should not include subjective ratings or commentary on, for example, the quality of management's practices or policies (Please refer to Question 10 for further comments).
- The implications for auditor liability regarding the provision of these services, including the adoption of appropriate limitations or safe harbors.

Of the specific options that may be evaluated, we believe that the following options are worthy of consideration based on evidence suggesting that there may be both value and demand in the marketplace for auditor assurance on such information:

- Information that the entity uses to manage its business, such as key performance indicators
- Market-moving information that investors use in their decision-making, such as earnings releases in particular
- Management discussions of critical accounting estimates that are required to accompany the financial statements in certain jurisdictions

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

The fact that other information varies by jurisdiction in both nature and extent of regulation presents a significant challenge for global standard-setting. Due to the variation in other information across jurisdictions, and in some cases, across entities, we believe that assurance on other information should not be a priority focus for the IAASB for near-term changes in auditor reporting, but that such an initiative may be useful in the longer term.

We believe that, in the interim, the IAASB project related to the auditing of financial statement disclosures is an appropriate precursor to any global standard-setting efforts related to assurance on other information, as many of the same challenges exist in auditing the evolving nature of disclosures as would exist in providing assurance on other information. Common challenges would include, for example, the application of materiality and the evaluation of non-historical or non-financial information.

Also, in the interim, we believe that, in certain jurisdictions, standard-setters may work with regulators to determine both the subject matter of additional assurance for the jurisdiction and the reporting framework necessary. We are generally supportive of such efforts in cases where there is recognized value by users for the assurance on the other information. We encourage the IAASB to monitor and collaborate with any such efforts.

Overall, we believe that, for specific changes in auditor reporting that the IAASB chooses to pursue, a cost-benefit analysis of the change should be performed. Also, we believe that separate analysis is warranted for listed (and perhaps other public interest entities) and for non-listed entities.

Section IV – 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.*

We believe that the options in *Section III – Exploring Options for Change* can be viewed on a continuum in the following order:

- Changes to the format, structure and contents of the standard auditor's report (please refer to Questions 4 through 7)
- Increased use of emphasis of matter paragraphs (please refer to Questions 8 and 9)
- An enhanced corporate governance model or other assurance or related services outside the scope of the financial statement audit (please refer to Questions 11 through 15)
- Auditor commentary on insights about the entity or the quality of its financial reporting (please refer to Question 10)

The implications of change and potential implementation challenges increase for the options on the continuum as the degree of subjectivity in the underlying information increases. Further, the costs and the perceived benefits also increase on the same continuum.

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

We do not believe that the benefits, costs, potential challenges and other implications of change are the same for all types of entities. Certain changes may be applicable across all entities while other changes may be more appropriate for listed and public interest entities.

The following changes are likely beneficial and applicable across all entities and user groups:

- Changes in the format and content of the standard auditor's report (Option A)
- Description of the auditor's responsibilities for other information in documents containing audited financial statements (Option B)

These changes are cost effective and have few implications of change, but may be viewed by some users as the least meaningful of all of the potential options for change in auditor reporting.

The following changes represent incremental changes to the standard auditor's report, and are likely most beneficial for listed entities whose financial statement users are seeking more information about the entity and the audit process to make informed investment decisions, and for public interest entities whose financial statement users are seeking greater transparency:

- Auditor commentary on matters significant to users' understanding of the audit or the audited financial statements (Option C)
- An enhanced corporate governance model (Option D)
- Other assurance or related services on information not within the current scope of the financial statement audit (Option E)

These options will require incremental reporting for the auditor, which will involve increased costs and implications of change along the continuum described in our response to Question 16. In accordance with the principles for changes to auditor reporting stated earlier in this letter, the costs and implications of any changes related to Options C, D and E should be analyzed in comparison to the perceived demand and value in determining whether the changes should be implemented.

Should it be determined that Options C, D and E ought to apply to all entities, a phased implementation approach should be considered, where changes would be required initially for listed and public interest entities with delayed implementation afforded to other entities. Alternatively, consideration could be given to require these incremental reporting options for non-listed entities based on an understanding of their specific user needs.

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?

In the near-term, we are supportive of the IAASB pursuing options as described in Questions 4, 6 and 8 (i.e., Options A and B, and Option C only as it relates to the increased use of emphasis of matter paragraphs to highlight areas of the financial statements). We encourage the IAASB to monitor and collaborate with jurisdictional efforts related to the options discussed in Questions 11 and 14 (i.e., Options D and E), with potential longer term exploration by the IAASB.

Also, as discussed in Question 8, we encourage the IAASB to collaborate with standard-setters and regulators on continuous improvement in the nature and extent in disclosures required by the financial reporting frameworks specifically focused on how best to facilitate users' identification of matters of significance while also providing transparency.

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 no further suggestions beyond the comments that we have provided in the previous questions.

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We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Karen M. Golz, Vice Chair, Global Professional Practice (karen.golz@ey.com).

Yours sincerely,

Ernst & Young Global Limited