



Meeting: IAASB Consultative Advisory Group
Meeting Location: Brussels
Meeting Date: March 6–7, 2012

Agenda Item

H

Auditor Reporting—Insights

Objective of Agenda Item

1. To consider proposals relating to providing additional auditor commentary in the auditor's report.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Item H.1** to facilitate the discussion. Discussion of the general approach to the auditor reporting project is provided in **Agenda Item G**, and the project proposal approved by the IAASB in December 2011 is provided in **Agenda Item G.1**.

Background

3. Requests from investors for auditor communication on key aspects of the audit, the entity, and the entity's financial statements stem from the view that the auditor possesses a great deal of information about the entity and the audited financial statements that would be of value to users in their decision-making, and is often already providing this information to audit committees/those charged with governance (TCWG). Paragraphs 32–37 of **Agenda Item G.1** provides further context to these calls for change, and proposed IAASB actions that may be appropriate in light of the comments received on the May 2011 Consultation Paper (CP) on auditor reporting and other relevant national initiatives.
4. Following on from the project proposal, **Agenda Item H.1** represents the Auditor Reporting Task Force's (TF) initial proposals in relation to providing additional auditor commentary. These proposals reflect the debates of the TF, informed by the discussions of the Insights Sub-committee, and will be considered by the IAASB for the first time at its upcoming March 2012 meeting.

Matters for CAG Consideration

5. Recognizing the desire for a progressive June 2012 CP on auditor reporting, it is important that the CAG provides strategic input to the IAASB on the topic of auditor commentary in light of the TF's recommendations. These recommendations are as follows:
 - Auditor commentary should be included in the auditor's report for listed entities. Further consideration needs to be given as to whether auditor commentary should be required for all entities or public interest entities (PIEs), in addition to listed entities.

- The types of matters to be addressed in auditor commentary should be linked to areas of audit emphasis, but the IAASB will need to highlight key factors for the auditor to consider in determining what should be included in auditor commentary to help promote consistency.
- Consideration is needed as to whether the focus of auditor commentary should be primarily on significant audit effort and significant auditor judgments, or whether commentary is needed more broadly to also point to significant management judgments. Related to this, it will be necessary in due course to determine whether an auditor commentary section within the auditor's report would replace emphasis of matter (EOM) paragraphs and other matter (OM) paragraphs as currently defined in ISA 706, or whether clarification is needed in the ISAs to explain their interrelationship.
- Requirements relating to the content of auditor commentary will need to allow for flexibility to accommodate different auditor reporting models in national jurisdictions and should be premised on the auditor's evaluation of the appropriate degree of detail that would provide users with an understanding of areas of audit emphasis, including those involving significant judgment by the auditor in conducting the audit and relating to significant judgments by management in preparing the financial statements and
- Auditor commentary may involve discussion of a range of matters, but is likely to be a subset of matters discussed with those charged with governance (TCWG) in accordance with ISA 260.

Matters for CAG Consideration

The Representatives are asked for their views on these recommendations. For purposes of the discussion, attention is drawn to:

1. How the criteria and potential requirement relating to the inclusion of auditor commentary in the auditor's report has been described (see paragraphs 6–11 of **Agenda Item H.1**).
2. What factors the auditor would consider in determining the nature and extent of auditor commentary to provide (see paragraphs 15–18 and Appendix 1 of **Agenda Item H.1**).
3. The TF's consideration of the value and impediments of providing auditor commentary, in particular the potential effect on consistency of auditor reporting (see paragraphs 22–30 of **Agenda Item H.1**).

Material Presented – IAASB CAG PAPER

Agenda Item H.1 Auditor Reporting—Insights—Discussion of Issues and Illustrative Examples
(IAASB March 2012 Agenda Item 4-A)