



**IAASB**

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

# **Auditor Reporting – Proposed Consultation Paper**

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IAASB Meeting, Paris

15 March 2011



## Brief discussion about:

- Overall challenges
- Considerations for today's IAASB discussion
- Contemporary information considered by the Working Group
- The “problem” to be addressed
- Key points guiding the Working Group's approach
- IAASB CAG feedback
- IFAC SMPC feedback
- Considerations for future standard-setting

## We face a number of overall challenges

- Rapidly changing landscape – “moving target”
- Diverse views from different users; much passion in their respective views
  - Need to “move the ball forward” but not widen the expectations gap in the process
- Possible areas of change and related time horizon
  - Some options for change clearly have merit, but are more complex and would require more time and effort
- Finding the right link to the Audit Quality project

# Thoughts to Guide IAASB Discussion

- No established framework for the IAASB in writing this type of document
  - Critical to agree on approach and focus of the CP
- Determine whether the key points that should be made have in fact been made
  - Agree on the “problem” and options for addressing it
  - Can always move things around to improve clarity
- Further editing of current draft is needed
- Remember where we started
  - Academic research on users’ perceptions of the standard auditor’s report (ISA 700)

## **Contemporary information considered**

- IAASB/AICPA ASB-commissioned research studies and other contemporary studies and debates on the value and relevance of the audit and auditor reporting (including among others)
  - IOSCO Consultation Report on Auditor Communications
  - EC Green Paper *Audit Policy: Lessons from the Crisis*
  - CFA surveys on auditor reporting (Feb 2008; March 2009)
  - Debates in the United Kingdom: various FRC and APB Discussion Papers; House of Lords inquiry into Auditing (2009/2010)
  - US Department of the Treasury – Final Report of the Advisory Committee on the Auditing Profession

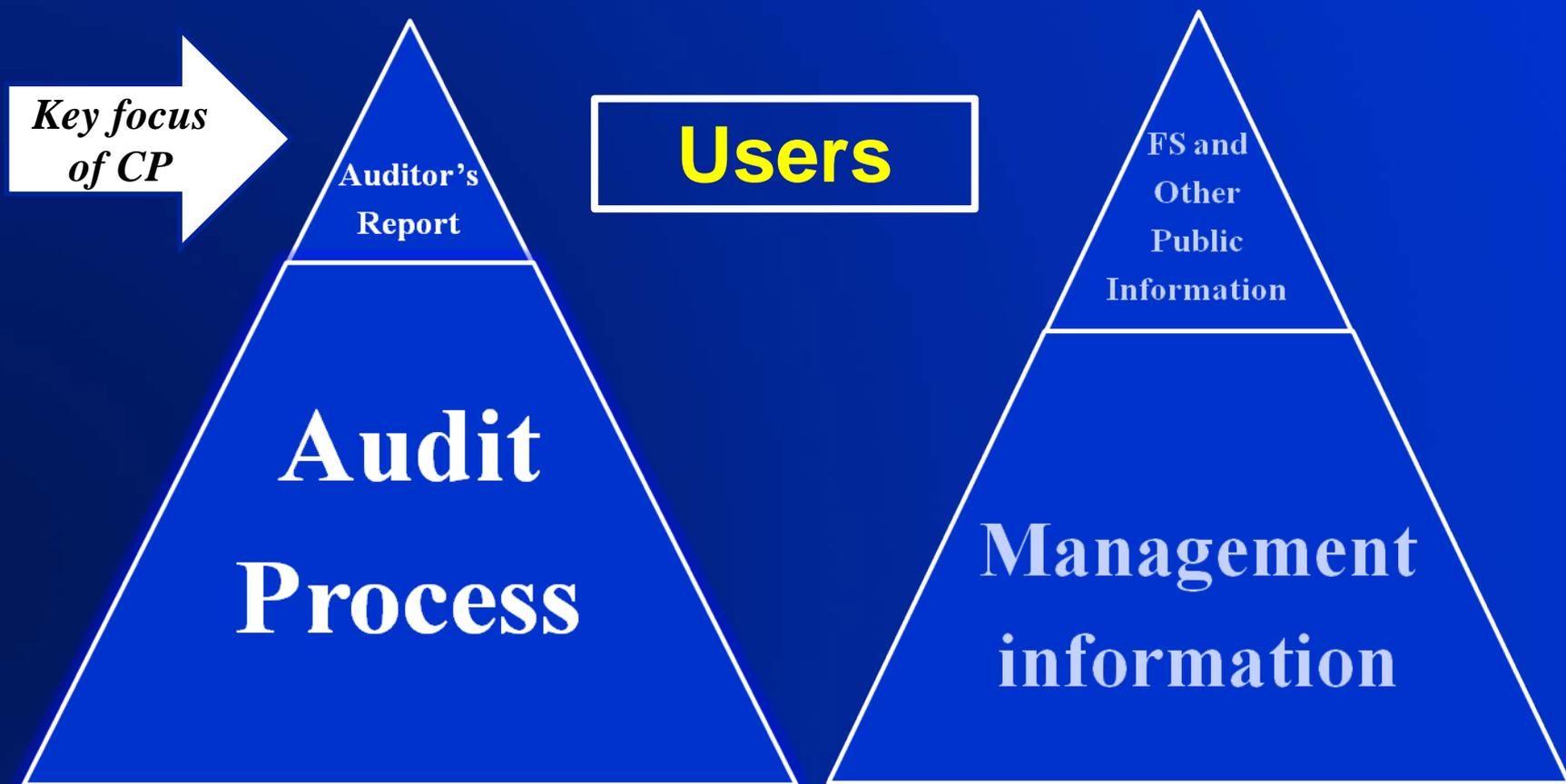
### Simply stated, the information indicates:

- The independent auditor's opinion on an entity's financial statements is valued, but the report itself is not viewed as particularly useful or informative
- Users wish to obtain more information about the entity and/or the audit process: referred to as the “*information gap*”
  - The “*information gap*” overlaps, but is distinct from the broader “*expectations gap*”
- Change is needed to address the “*information gap*” which in turn may help to address the “*expectations gap*”
- Many options for change, including shorter-term and longer term strategies
- Changes in auditor reporting are part of the desired change

# *Expectation and Information Gaps*

**Q: What contributes to the perceived gaps?**

**A: A lack of transparency**



## Auditor Reporting and Audit Quality

- Auditors report = the main output of the audit process
- Users believe that additional information about the audit performed would lead to more informed decision-making and help to better assess quality of the audit



## **Key Points Guiding the Working Group**

- Evidence to date signals the need to explore changes in auditor reporting, in particular, the standard auditor's report
- A more holistic approach to change is needed to fully address the information gap
  - Auditor and auditor reporting can only be part of the solution
- Many options for change, but focus on those that are both reasonable and practicable (and a few are “rising to the top”)
- Consider first what is possible within the current scope of the financial statement audit
- Keep solutions that also involve changes in corporate reporting firmly on the agenda (e.g., audit committee reporting)
- Potential effects of change need to be drawn out

# Potential Options for Change in Auditor Reporting

Areas of Possible Change .....

Format and structure of the SAR  
(Section III.C)

Auditor commentary/  
reporting on  
significant matters  
(Section III.A)

Auditor reporting  
on other  
information in  
documents  
containing AFS  
(ISA 720)  
(Section III.B)

**Longer term): Expanded/enhanced scope  
of audit e.g., integrated audit, fraud**

Additional  
assurance  
reporting  
/other services

e.g. on:

- quality of corporate governance;
- risk management

**Shorter-term focus: NO CHANGE TO SCOPE OF  
THE FINANCIAL STATEMENT AUDIT**

**Corporate Governance Reporting Model  
(Section IV)**

# “Auditor Commentary”

Suggestions for Possible Change .....

Increased use of  
EOM paragraphs  
 (“plain vanilla”)

## Information about the audit

- Key risks, critical accounting estimates, measurement uncertainty
- Other areas?
- Procedures and findings?

French model:  
“justification of  
assessments”

**Auditor’s views or  
insights about  
aspects of the  
entity or its  
financial reporting**

### **Key Points from CAG Discussion – March 2011**

In general, strongly favorable reaction ... but some areas to consider and to improve:

- Needs to be clear that the focus of the proposed CP is the information gap (a subset of the wider expectations gap)
- Consider further stage-setting about various users and needs
- Need to consider the separate roles of financial reporting and auditor reporting in addressing the information gap
- Important that auditor's role is clear – auditor should not become the provider of information about the entity; do not create any impression that it might be otherwise

### **Key Points from CAG Discussion – continued**

- Corporate governance models differ widely across the world – model of external reporting by audit committees not widespread
- Important to continue to interact with other parties (e.g., PCAOB, FRC, EC, IOSCO) but work to minimize unnecessary differences between reporting models
- General support for the way in which the CP highlighted the issues relating to SMEs, but important to continue dialogue with both SMEs and public sector entities

## **IFAC SMPC Comments (March 2011)**

- IAASB project should encompass consideration of issues raised in previous SMPC comments, i.e.
  - Needs of users of audit report for SMEs are different than those of users of audit reports for larger entities
  - Perception of excessive complexity in the proliferation of applicable reports in many jurisdiction; lack of clarity and guidance on which reports are relevant
- Users of audit reports of SMEs should be consulted specifically on auditor reporting in SME setting (e.g. banks, other lenders)
- Concerns that expansion of auditor reporting will negatively affect cost/benefit relationship of SME audits

## **Considerations for Standard-Setting**

- What initiatives will the IAASB look to pursue?
- Current reporting ISAs
  - How far and how fast?
  - Moving too slowly runs the risk of others setting the future direction for auditor reporting
  - Consistency of auditor reporting globally is still a highly desired goal
- Auditor assurance on reporting by TCWG?
- IAASB Strategy for 2012 – 2014
  - Addressing need for other assurance services to meet expanded demand for assurance