

**Meeting:** IAASB  
**Meeting Location:** Teleconference  
**Meeting Date:** May 5, 2011

## Agenda Item

# 1

### Auditor Reporting

#### Objective of Agenda Item

1. To approve the proposed Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*.

#### Working Group

2. The Working Group comprises:
  - Dan Montgomery, Chair, IAASB Member
  - Cédric Gélard, IAASB Member
  - Tomokazu Sekiguchi, IAASB Member
  - Marek Grabowski, IAASB Technical Advisor
  - Jon Rowden, IAASB Technical Advisor
3. Technical advisors supporting Task Force members on the project include Denise Esdon (for Mr. Montgomery), Sachiko Kai (for Mr. Sekiguchi) and Isabelle Tracq-Sengeissen (for Mr. Gélard).

#### Background

4. At its March 2011 meeting the IAASB reviewed the first draft of the proposed Consultation Paper (CP). While the IAASB expressed support for the initiative, there were some areas where the Board felt improvements should be made.
5. Amongst other matters, the IAASB expressed concerns about the clarity of the explanations of the issues identified in the context of the “information gap” and the “expectations gap.” The IAASB also commented on the overall structure, and on the need to improve the flow between the various sections, of the document. Other suggested improvements related to: the general tone and messaging in the document; further consideration of perspectives in relation to audits of small-and medium-sized entities; and the extent to which the document should develop perspectives on implications of the options for change explored in the CP.
6. The IAASB asked the Working Group to present a revised draft for approval at the tentatively scheduled May IAASB teleconference.

### Activities since Last IAASB Discussion

7. The Working Group met on three occasions to develop the revised proposed CP presented in Agenda Item 1-A.
8. As further input to development of the revised CP, the Working Group circulated a working draft to the IAASB electronically in April for comment.

### Overview of Changes

9. Broadly, the proposed CP in Agenda Item 1-A has been revised from the March version in the following main areas:
  - Section II, *Introduction: Background and Issues Identified* – Further explanation of the broader context of the issues identified and how the issues relate to auditor reporting as well as the wider corporate financial reporting model; and a more balanced description of the issues with reference to the underlying “expectations gap” and the “information gap” perceived by users.
  - Section III, *Exploring Options for Change* – More balanced presentation of the possible options for change explored in the CP.
  - Section IV, *Implications of Change and Potential Implementation Challenges* – Additional content aimed at stimulating respondents’ consideration of the implications, effects and challenges associated with the different options.
10. Changes made to the proposed CP arising from IAASB’s input on the working draft circulated electronically in April include the following:
  - Acknowledging more explicitly throughout the document that the issues identified, and the proposed options for change, relate to narrowing the information gap or to improving the communicative value of the auditor’s report.
  - With respect to Section III on exploring options for change:
    - Clarifying that the solution(s) to the challenge of enhancing auditor reporting may involve one or more of the options explored in the CP.
    - Redrafting of text that might infer an implicit preference on the part of the IAASB for a particular option.
    - Presenting a more balanced view of the options explored in the CP, including further explanation of advantages, disadvantages or other matters relevant to the consideration of the options.
    - Providing additional context to the option of reporting on other information in documents containing audited financial statements under ISA 720.<sup>1</sup>

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<sup>1</sup> ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

- Acknowledging more explicitly that differences in national corporate governance models may affect the practicability of the option of an enhanced model of corporate governance reporting.
  - With respect to Section IV, providing a more balanced coverage of possible implications of change in order to help stimulate respondents to share relevant viewpoints with the IAASB.
  - Further refinement of the questions for respondents to ensure they are clear as to the matters on which the IAASB is seeking input and are drafted in a way to solicit meaningful responses.
11. In addition there have been a number of editorial and drafting improvements to enhance readability.

### **Material Presented**

Agenda Item 1-A Proposed Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*

### **Action Requested**

12. The IAASB is asked to approve the proposed Consultation Paper in **Agenda Item 1-A**.

Subject to the Board's approval, a 120-day consultation period ending September 16, 2011 is proposed. This timing would allow the Board to discuss a full review of responses received at its December meeting. It would also allow stakeholder responses to be publicly available by mid-September, when it is anticipated other parties will be actively considering policy making and other initiatives.