



**KPMG IFRG Limited**

8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

Tel +44 (0) 20 7694 8871  
Fax +44 (0) 20 7694 8429  
DX 38050 Blackfriars  
sylvia.smith@kpmgifrg.com

Technical Director  
International Auditing and Assurance  
Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

Our ref SS/288

Contact Sylvia Smith

16 September 2011

Dear Sirs

**IAASB Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change***

We are pleased to have the opportunity to comment on the above Consultation Paper issued by the International Auditing and Assurance Standards Board (IAASB). We have consulted with, and this letter represents the views of, the KPMG network.

*Overarching comments*

We support the IAASB's initiative to explore options to enhance the quality, relevance and value of auditor reporting. We agree that change is required to respond to the needs of investors and other users. However, such change can be achieved only through cooperation between the IAASB and other stakeholders in the process.

We believe that the type of change necessary to respond appropriately to what is described in the paper as the information gap will need to go beyond expanding information provided within the auditor's report and that it requires consideration of what information is included both within and outside the financial statements and of reporting by those charged with governance. We also believe that any changes in auditor reporting should be based on an appropriate understanding of the auditor's current responsibilities. This is important because significant events such as the financial crisis have highlighted that users still do not have a clear understanding of the auditor's responsibilities, e.g., that the auditor's opinion does not extend to concluding on matters such as the appropriateness of an entity's business decisions or risk appetite. Accordingly, we are in favour of initiatives aimed at both increasing user understanding of the auditor's responsibilities and also clarifying what information is, and is not, covered by the auditor's opinion on the financial statements.

Therefore, in addition to the IAASB’s initiative, we encourage the IAASB to participate in other projects aimed at understanding the information needs of investors and other users (collectively referred to as “users” in this letter), how these needs may be better met and exploring the role that auditors can play in adding credibility to such information. For example, the International Integrated Reporting Committee (IIRC) is working on a framework for a global integrated reporting model; the UK’s Financial Reporting Council (FRC) is undertaking a project on effective company stewardship; the European Commission has issued its Green Paper *Audit Policy: Lessons from the Crisis*; the U.S. Public Company Accounting Oversight Board’s (PCAOB) auditor reporting project is underway and the International Accounting Standards Board (IASB) recently issued an agenda consultation paper seeking input on priorities for improving financial reporting. Collaboration with regulators and financial reporting standard setters is critical to exploring potential options for change to address the expectation and information gaps. The remainder of our comment letter is focused on the areas subject to consultation within the paper.

It would be useful for the IAASB to work with regulators and other interested parties to initiate field testing of some of the alternatives set out in this consultation paper, or recommended by other organizations pursuing similar projects.

With respect to the IAASB’s consultation paper, we support exploring a number of options for change that would meet the needs of users. However, in pursuing options for change, it is essential that any changes to the current reporting model considered by the IAASB aim to retain the following principles:

- Audit quality should be enhanced, or at least maintained.
- The expectation gap should be narrowed or, at least, not expanded.
- Users’ understanding of financial information should be enhanced.
- Management and those charged with governance are the primary source of information about the entity.
- Users should not be expected to sort through information provided by management, those charged with governance and independent auditors in order to form a complete understanding of a matter or to understand the similarities and differences in view.
- The benefits of any changes should outweigh the costs.

We support the existing division of responsibilities between management, those charged with governance and the auditor. We strongly believe that any changes to the reporting model that result in more information being provided to users should preserve the fundamental principle that management and those charged with governance prepare and communicate information about the entity. Accordingly, management should continue to provide information about the company’s financial position, results of operations and cash flows and related disclosure as management is both responsible for such information and is in the best position to provide it. For the auditor to provide such information would potentially undermine the responsibility of management and change fundamentally the role of the auditor and the relationship between the auditor and the company and users, which we believe is not warranted in response to the issues

presented in the paper. The independent auditor is best positioned to enhance the value and credibility of information provided by management and those charged with governance, by increasing confidence in the reliability of the information. We note that our view on this matter also is consistent with proposals announced recently by the FRC in favour of having those charged with governance provide additional information about the entity, rejecting alternative arguments in favour of having the auditor provide such information.

Accordingly, we are supportive of the IAASB's initiative to solicit input from users as to the information needed to address the information and expectation gaps and explore options for change.

In terms of specific changes that may be made to the reporting model, we are supportive of an auditor's report that is short and concise that focuses on key elements as discussed in our response to question 4 and that may include a cross reference to additional information outside of the auditor's report to address the expectation gap. Of the options for change relating to the information gap, our preferred approach is for an enhanced model of corporate governance reporting as discussed in our response to question 11. We also support the increased use of emphasis of matter paragraphs in the auditor's report to provide additional information under certain circumstances as discussed in our response to question 10. However, it is important to emphasize that any additional information that the auditor may provide in the auditor's report must not undermine or detract from the auditor's opinion on the financial statements as a whole.

Our detailed responses to the consultation questions posed by the IAASB are included below. These were developed and evaluated using the principles set out above.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

*KPMG IFRG Limited*

KPMG IFRG Limited

cc: Jean Blascos, KPMG

## Response to specific questions

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

Section II provides background on the perceived expectation and information gaps. It also indicates that users have a need for additional information over and above what is currently reported.

We believe that the Consultation Paper identifies the significant issues and challenges related to the information gap. However, the Paper is less robust in its identification of issues and challenges related to the expectation gap. For example, it does not address the issue that became apparent with the financial crisis, i.e., that users do not clearly understand that the auditor's opinion on the financial statements does not extend to concluding on matters such as the appropriateness of an entity's business decisions or risk appetite. We recognize that change is required to respond to the needs of users. We also believe that changes in auditor reporting should be based on an appropriate understanding of the auditor's current responsibilities. We therefore support the IAASB initiative to improve the auditor's reporting model and to explore possible alternatives to communicate additional information, including changes to the auditor's report, expanded management disclosures and reporting to shareholders by those charged with governance with corresponding auditor association. We encourage the IAASB to adopt changes to the auditor's reporting model that serve the interests of users, and are consistent with the principles described in our overarching comments.

### **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?**

We understand the information gap to be the gap between the information that users believe is needed to make informed investment and fiduciary decisions and the information that is available to them through the entity's audited financial statements and from other publicly available sources. We are supportive of changes that would narrow the information gap for users; however, we believe that it is critical that when exploring options for change the principles discussed in our overarching comments are preserved.

Accordingly, our preferred approach is to explore narrowing the information gap by expanding existing corporate governance reporting to require those charged with governance or management of the entity to provide additional information to users regarding risks and key judgments that underlie the financial statements and to require auditors to add credibility to this additional information. Our preference would be for auditors to add credibility by providing assurance on such information. We are encouraged by the recent paper issued by the FRC *Effective Company Stewardship: Next Steps*<sup>1</sup> which states, "it is the company that is responsible for preparing the annual report and the financial statements. It is the company's views that are wanted by, and should be reported to, investors and other users. Therefore, the company,

---

<sup>1</sup> Financial Reporting Council, *Effective Company Stewardship: Next Steps* September 2011 available at [www.frc.org.uk](http://www.frc.org.uk)

through its board of directors and management, should provide the information – not the auditors.”

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

Our response to this question depends on the changes being contemplated.

Changes aimed at increasing the understanding of what an audit is and is not, and therefore reducing the expectation gap, are relevant to audits of all types of entities. Therefore, there is merit in having the IAASB explore how the expectation gap can be narrowed for all audits.

However, we see the options for narrowing the information gap as different for listed entities and non-listed entities. For non-listed entities, the benefits of providing the type of additional information contemplated in the consultation paper to reduce the information gap may be outweighed by the costs. Such additional information also may not be necessary for all non-listed entities since users of financial statements issued by non-listed entities often have the ability to obtain additional information about the entity when such information is required. This is not the case for users of the financial statements of listed entities. Therefore, we believe the proposals for change related to reducing the information gap should be limited to audits of listed entities with voluntary application for other entities.

**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?**

It is desirable that users should understand the nature, scope, benefits and limitations of an audit. Measures by which this end can be achieved should be encouraged. Recent initiatives to improve auditor reporting undertaken by various organizations around the world suggest that existing descriptions, for example those required by ISA 700 in relation to the respective responsibilities of auditors and those charged with governance, and the scope of an audit, and other changes to the auditor’s report recently implemented in certain jurisdictions have not improved stakeholder understanding of these matters in practice or eliminated or reduced the expectation gap. We support changes to the standard auditor’s report that are responsive to the needs of users and for which the benefits outweigh the costs. We believe that any changes to the standard auditor’s report should be considered in light of the principles described in our overarching comments. We encourage the IAASB to work with the PCAOB, the FRC, the European Commission and other regulators and standard-setters to determine the most appropriate response that is driven by users’ needs for a globally consistent approach.

Our view is that the auditor’s report will be most effective if it is kept short and concise with inclusion of the following essential elements:

- a. A clear and unambiguous opinion that is more prominently displayed.
- b. A description of the scope of the audit.

- c. Identification of the auditing standards applied in conducting the audit and a cross reference to where a reader can obtain a more detailed description as to the objectives of an audit, the level of assurance given by an auditor and how that assurance is obtained.
- d. A statement that management is responsible for the preparation and presentation of the financial statements and a cross reference to where a reader can obtain more information regarding management’s responsibilities.
- e. Emphasis of matter paragraphs, if applicable.

With respect to the scope of the audit, we support including a reference to the auditor’s responsibility to read other information, and to communicate in the auditor’s report, any inconsistencies identified between the other information and the audited financial statements<sup>2</sup>. We also support having the auditor’s report identify the document(s) containing the other information, e.g., annual report, management discussion and analysis. In order to avoid expanding the expectation gap, if this option is accepted, we believe it would be beneficial for the description of the objectives of an audit to clarify that no assurance is provided on the other information.

We also believe it is important that the description of the objectives of an audit referred to in c. above, include a ‘plain English’ explanation of what an audit is and is not. This explanation, for example, can address the auditor’s responsibility to detect fraud, the concept of reasonable assurance, material misstatements and the inherent limitations of an audit due to factors such as materiality, risk assessment, etc. It also can clarify the types of significant matters that are not covered by the auditor’s opinion on the financial statements (e.g. matters relating to business decisions or risk appetite) and provide a brief explanation as to why this is the case.

**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?**

As noted above, we support a short, concise auditor’s report which gives prominence to the auditor’s opinion and any other information the auditor decides to communicate. Therefore, we support providing a reference in the auditor’s report to where information regarding the responsibilities of management and the auditor and the nature of an audit can be found outside of the report. However, we believe that expanded descriptions alone will not be effective in narrowing the expectation gap. We therefore are in favor of other actions aimed at narrowing the expectation gap such as education, training and informational publications to users of financial information and encourage the IAASB to work with IFAC and its member bodies to undertake such actions.

In addition to the expansion of the description of responsibilities, as described in our response to question 4, we believe that it may be helpful to users to provide a ‘plain English’ description of what an audit is and what an audit is not. Given the potential length of such a description, we believe that it would be more appropriate for it to be referenced in the auditor’s report and

---

<sup>2</sup> ISA 720, The Auditor’s Responsibility Relating to Other Information in Documents Containing Audited Financial Statements.

available outside of the report in a publicly accessible site. For example, in the UK, the auditor's report may reference a site where the user can find the Auditing Practices Board's description of an audit.

**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?**

**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?**

As noted above, we are supportive of including a reference in the auditors' report to the auditor's responsibility with respect to other information; if it is determined that such a reference will contribute to a reduction in the expectation gap.

However, we believe there should not be an explicit statement as to whether the auditor has anything to report with respect to the other information. Rather, we believe that reporting by exception should be just that, reporting only when there is an exception to report.

As the reporting of information becomes more complex, it may be necessary for the IAASB to consider providing more clarity around what constitutes 'other information' that is within the scope of ISA 720. Additionally, we support having the auditor's report identify the document(s) containing the other information. As discussed earlier, in order to avoid expanding the expectation gap, we believe it would be beneficial for the description of the objectives of an audit to clarify that no assurance is provided on this other information.

**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.**

The consultation paper includes the following examples of information about the audit that could be explored to be included in additional paragraphs in the auditor's report:

- Key areas of risk of material misstatement of the financial statements identified by the auditor, including critical estimates or areas of measurement uncertainty in the financial statements.
- Areas of significant auditor judgment, for example judgments about material uncertainties that may cast doubt about an entity's ability to continue as a going concern, or judgments pertaining to the recognition, de-recognition, measurement or disclosure of relevant items within the financial statements.
- The level of materiality applied by the auditor to perform the audit.
- The entity's internal controls, including significant internal control deficiencies identified by the auditor during the audit.

- Areas of significant difficulty encountered during the audit and their resolution.

As stated in the overarching comments, we are supportive of exploring options for change that meet the principles described in our overarching comments. However, we believe that the drawbacks of the auditor reporting the type of additional information identified in the above examples outweigh the potential benefits. This information is typically what the auditor would discuss and report to those charged with governance. Public disclosure of information involving the audit process such as materiality, auditor judgments about specific matters and areas of audit difficulty have significant potential to be misunderstood and to be taken out of context by users at large. While we recognize that users may consider our communications with those charged with governance to include information that may be relevant to them, these communications involve significant two-way dialogue that provides the necessary context and perspectives to these communications. Therefore, for the matters to be properly understood, it will likely require a significant level of explanatory information to be added to the matters identified above in order to provide the necessary context to those users who are not privy to the discussions between the auditor and those charged with governance. Even with the additional effort and cost to expand the descriptions of the communications with those charged with governance to add the necessary context, we believe that a significant risk will continue to exist that such context may not be fully understood.

The communication by the auditor in the auditor's report of key areas of risk and significant judgment begs for a discussion of the audit procedures employed to address those risks, and the results thereof. We expect that in most cases it will be difficult for the auditor's report to clearly and concisely describe such procedures and their results in view of the complexity of estimates and the fact that procedures are often performed on related accounts. Auditors would need to exercise considerable judgment in providing these communications, which is likely to result in lack of consistency. For example, too much detail may be overwhelming to most users, while summarized information may not provide users with a clear understanding of the extent of work performed. We believe that reporting of such information by the auditor may expand the expectation gap rather than narrow it. It may also cause confusion to users related to the responsibility of the auditor for the areas of judgment, internal controls and areas of difficulty.

#### **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.**

Based upon the results of the Footprints Consultant's study on the perception of the “justification of assessments” communications in France, it would seem that there has been mixed feedback and concerns related to the effectiveness of the additional communications. These concerns include that the additional communications have resulted in boilerplate or generalized language of standard audit procedures relating to areas of risk and judgment rather than conveying any entity-specific information of value to users. We believe that it would be necessary to review the nature of communications that currently are being made under the justification of assessments and that users should be asked to assess whether these are of benefit.



## **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.**

The examples of areas described in the paper for the auditor to provide insights and perceptions include:

- The quality of the entity’s internal controls and financial reporting processes.
- Qualitative aspects of the entity’s accounting policies, including the relative conservatism or aggressiveness reflected in management’s selected policies.
- The auditor’s assessment of management’s critical accounting judgments and estimates, including where each critical judgment or estimate falls within a range of possible results.
- The quality and effectiveness of the entity’s governance structure and risk management, and the quality and effectiveness of its management.

Consistent with the principle that management and those charged with governance should be the source of information about an entity, we believe that the auditor should not provide insights about the entity or the quality of its financial reporting in the auditor’s report. Furthermore, users should not have to sort through information provided by management, those charged with governance and independent auditors in order to form a complete understanding of a matter or to understand similarities and differences in view.

We are concerned that a requirement for the auditor to communicate directly information about the company would likely affect the way in which auditors and those charged with governance interact and may, in the longer term, compromise the quality of communications between the auditor and those charged with governance and therefore affect audit quality. We also believe that the auditor making such communications directly would create the appearance of the auditor speaking on behalf of management or those charged with governance, thus blurring the distinctions between the responsibilities of management, those charged with governance, and the auditor.

If it would be beneficial to users to have more information regarding the entity or the quality of its financial reporting, then management or those charged with governance should provide it, with the auditor providing assurance on it. This reporting structure is consistent with current governance processes and the roles and responsibilities of management, those charged with governance and the auditor.

Alternatively, or perhaps in conjunction with this suggestion, we would support an increased use of emphasis of matter paragraphs in the auditor’s report provided:

- Their use is limited to highlighting significant matters that are essential to users’ understanding of the financial statements;
- Management has disclosed the matters highlighted by the auditor in the financial statements in accordance with requirements of the applicable financial reporting framework; and

- The highlighting of such matters by the auditor does not undermine or detract from the opinion on the financial statements as a whole.

If this alternative is implemented, then guidance will be required to assist auditors with the identification of matters that should be emphasized in order to provide for comparability and consistency in reporting and to avoid boilerplate or overuse of emphasis of matter paragraphs. Accordingly, it will be important for standards to identify what would qualify as a significant matter and the content of what would be described in the emphasis of matter paragraph. Consideration of the guidance in IAS 1, *Presentation of Financial Statements*, as it relates to areas of judgment and estimation uncertainty to be disclosed in the financial statements and the criteria within the SEC rules and regulations for determining Critical Accounting Estimates for disclosure within management discussion and analysis (MD&A) could serve as a basis to establish objective criteria for identifying those matters to be emphasized by the auditor.

We encourage the IAASB to field test these proposals to evaluate their benefits, the consistency of their application and the resultant reporting.

#### **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.**

The enhanced model of corporate reporting in the paper proposes that those charged with governance issue a report to users of financial statements with information about their oversight of the financial reporting process and the audit. It also proposes that the auditor provide assurance on the report provided by those charged with governance.

Of the options for change relating to reporting presented in the paper, this is our preferred option. We strongly believe that any changes to the reporting model that result in more information being provided to users should preserve the fundamental principle under which the preparation and communication of information remains the responsibility of management and those charged with governance. This option is consistent with this important principle. We therefore are supportive of exploring this option further. We recognize that the success of this option will be dependent on the IAASB taking a holistic and coordinated approach and working with standard-setters, regulators and other relevant parties in order to focus on the needs of users.

We believe that the focus of the reporting by those charged with governance should be on the approach taken by them to discharge their responsibilities. For example, those charged with governance could report on areas relating to financial reporting and risk management, including:

- The key areas of sensitivity or risk, including the choice of accounting policies, and how these are addressed;
- The process by which those charged with governance satisfied themselves that the entity is a going concern, including any matters arising from their discussions with management;
- Actions taken as a result of their discussion with the auditor such as the auditor's key risk assessment, areas of audit focus, views on management's key judgments and estimates, assessment of the quality of financial reporting by the entity, and the auditor's assessment of the entity as a going concern;

- The steps taken to assess the effectiveness of the external audit.

Subject to evaluation of costs and benefits and the availability of suitable criteria, we support the auditor providing assurance on the reporting by those charged with governance on these matters.

Those charged with governance also could report other matters relating to the role of the auditor such as:

- The policies that they adopted in relation to the provision of non-audit services and the steps taken to ensure the independence and objectivity of the entity's external auditor; and
- The process by which they reached their recommendation to appoint or reappoint (as the case may be) the entity's external auditors and the reasons for that recommendation.

If this option is explored then it would require clear criteria and implementation guidance from regulators and standard-setters regarding the information to be provided by those charged with governance.

**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 above, this proposed option will involve a holistic approach, involving the development of criteria and implementation guidance related to the information provided by those charged with governance and the scope and nature of assurance provided by the auditor.

Jurisdictional laws and regulations differ significantly and may result in challenges to a global approach. Such a model may be effective in jurisdictions in which corporate governance oversight of the entity's financial reporting to external shareholders, and of the external audit is undertaken under a formal mandate of those charged with governance.

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

There is an expectation that information reported by an entity is accurate and that it is not otherwise misleading. Independent assurance on such information has the potential to provide value to users by increasing confidence in its accuracy and that it is not otherwise misleading. As noted above, a cost versus benefit assessment would be required to determine the scope and nature, if any, of assurance that would be required.

**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.**

Examples of the type of information discussed in the paper include;

- Corporate governance arrangements
- Business model, including the sustainability thereof

- Enterprise-wide risk management
- Internal controls and financial reporting processes
- Key performance indicators

The nature of what additional information should be provided is a question for users. The benefits to users of additional information will need to be assessed against the cost of providing it.

If an entity reports information, then it is on the basis that it believes that the information is of value to users and there is an expectation that such information is reported accurately and that it is not otherwise misleading. Independent assurance on such information therefore has the potential to provide value to users by increasing confidence in its accuracy and that it is not otherwise misleading.

Service offerings are available today that provide assurance beyond the current statutory audit opinion. For certain of these such as sustainability and Corporate Social Responsibility (CSR) reporting assurance to users is provided in some cases. In other instances, private reports are provided to the entity based on terms of reference that are agreed with each entity to meet its particular needs. Whilst it is important that entities have access to assurance in these areas, a mandatory requirement for external reporting and assurance thereon would be appropriate only if there is general acceptance by companies, users and other stakeholders (especially governments and regulators) that the information, and assurance thereon, provides value from the benefits of increased transparency and confidence in the robustness of reported information that outweigh the costs.

These developments require thorough and careful debate in order to develop practical working solutions that could be considered and adopted. Potential options for change will require the IAASB to work with others in a holistic approach. In order to make substantive progress in these areas there are a number of pre-requisites, including:

- Clarity as to what information is useful to users and the form and method by which management communicates such information;
- Agreement on those aspects on which users require some form of assurance ;
- The availability of suitable criteria to be used by management or those charged with governance to prepare such information and the auditor to provide assurance;
- Agreement and recognition of standards forming the basis on which an auditor is working; and
- An appropriate and effective liability regime for directors and those providing assurance, particularly to the extent that it involves forward-looking information.

We recognize that it is not in the control of the IAASB to mandate additional information to be provided by entities; however, we believe that the IAASB’s participation and involvement in the debate to help shape the direction and reduce the information gap is critical.

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

See response to question 14.

**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.**

See responses to specific questions related to the options for change in Section III.

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

See response to question 3.

**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?**

As noted in our response to question 2, our preferred approach would be to explore how the corporate governance processes may be expanded so that those charged with governance can provide additional information to users and auditors can add credibility to this additional information. We are supportive of exploring options for change that are intended to meet the needs of users and whose benefits outweigh the costs. While we believe that we could implement some form of the alternative that includes the required and expanded use of emphasis paragraphs in the auditor’s report, it is important that use of such paragraphs be limited to significant matters that are defined by standards and that are disclosed in the financial statements, provided their inclusion in the auditor’s report does not undermine or detract from the auditor’s opinion on the financial statements as a whole. We also are supportive of initiatives aimed at expanding entity reporting beyond traditional financial reporting to other matters that may be of interest to users as described in question 14 with auditors providing assurance thereon, based on the understanding that criteria would first need to be agreed that govern the preparation and evaluation of such reporting.

**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 reporting?**

As we have stated in our overarching comments, we support the IAASB’s initiative to explore options to enhance the quality, relevance and value of auditor reporting. Obtaining the views of the users of financial reporting is essential to evaluating the changes that would result in the greatest benefits. We believe that evaluation of these requirements and the proposed changes in line with the principles described above is critical. Changes, however, can only be achieved through cooperation between the IAASB and other stakeholders in the process.