



1 October 2011

Our ref: ICAEW Rep 92/11

Mr James Gunn, Technical Director, IAASB
545 Fifth Avenue, 14th floor
New York, New York 10017
USA

Dear James

Enhancing the Value of Audit Reporting: Exploring Options for Change

ICAEW is pleased to respond to your request for comments on *Enhancing the Value of Audit Reporting: Exploring Options for Change*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ENHANCING THE VALUE OF AUDIT REPORTING: EXPLORING OPTIONS FOR CHANGE

Memorandum of comment submitted in September 2011 by ICAEW, in response to IAASB's consultation paper *Enhancing the Value of Audit Reporting: Exploring Options for Change* published in May 2011

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Enhancing the Value of Audit Reporting: Exploring Options for Change* published by IAASB in May 2011, a copy of which is available from this [link](#). We have prepared this response in concert with our response to the PCAOB on its current consultation on auditor reporting *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter.

MAJOR POINTS

5. Key Messages
 - The current auditor reporting model works well but there is room for improvement within the broader spectrum of auditor and corporate reporting. The demands for change from investors in larger listed companies need to be justified and there is no need for smaller companies to be subject to all of the reporting requirements of larger companies. Investors and other users are best served by better quality reporting by companies and more relevant reporting by auditors; more reporting for its own sake will not help anyone.
 - Differing corporate governance regimes from which auditor reporting practices arise are likely to remain legally, culturally and economically highly jurisdiction-specific. Efforts should therefore be made by standard-setters towards the convergence of reporting requirements wherever possible, on the basis of high-level high-quality principles.
 - The following principles should underpin any standard-setting activity in this area:
 - companies should provide high-quality information on which auditors report; auditors should only provide original information about companies in exceptional circumstances
 - the pass/fail model should be retained
 - auditor reporting should be in sufficient detail to provide transparency about what auditors do and their findings, but not so detailed as to obscure key messages.
 - The overall strategy for the evolution of auditor reporting should match short-term improvements to the format and content of the auditors' report with more ambitious longer

term solutions in the form of improvements to the provision of wider-ranging auditor assurance.

The Current Auditor Reporting Model and UK Reporting Initiatives

6. It is clear from research that the current auditor's report has value in the eyes of investors. It is also evident that auditor reporting has in fact changed substantially in recent years. What has not changed is the extent to which the current framework is a pass/fail model and the overarching opinion provided by auditors continues to be valuable to investors the world over. The significance of a 'clean' audit report to companies seeking listings on the world's stock exchanges is easily overlooked. More can certainly be done though and much of the rest of the debate is about who provides additional information, where, what sort of assurance, if any, can be provided on it, and indirectly about the need for improvements to corporate reporting, and how the quality of auditor reporting can be assessed.
7. The Audit Quality Forum (AQF), convened by ICAEW, considered the issue of auditor reporting in 2006, and its work was instrumental in stimulating the debate internationally. It considered the information that shareholders wished to see in the audit report, why they wanted it, barriers to change and ways to overcome them. The report noted that some shareholders want more discursive information within the audit report, covering uncertainties and risks and details of difficult, sensitive or contentious issues, for example, which would typically be discussed in the UK with the audit committee¹.
8. The AQF debated a number of other auditor reporting issues in subsequent years including reporting on the Internet and auditor signatures on audit reports, which widely influenced thinking on these matters. More recently, ICAEW responded to the FRC in the UK on its *Effective Company Stewardship: Enhancing Corporate Reporting and Audit* consultation dealing with the content of and reporting on audit committee reports. We also responded to IOSCO on its auditor communications consultation. In both cases, we argued that one effective way forward in this area is in audit committee reporting, and auditor assurance on those parts not dealing with information provided by the auditor and other matters such as auditor appointment, independence and other services.
9. Most recently, ICAEW's Financial Reporting Faculty is about to publish a thought leadership work entitled *Reporting Business Risks: Meeting Expectations* as part of its *Information for Better Markets* series which deals with the current position in the USA, Canada, Italy and Germany as well as the UK, and with calls for enhanced reporting and the challenges and opportunities in meeting those demands.
10. Changes to auditor reporting are desirable and may involve reporting on areas of significant audit risks, but we believe that there is a strong case for addressing deficiencies in financial reporting, by better application of the requirements that already exist and by means of additional reporting requirements, if necessary. In the UK, the USA, and elsewhere, frameworks for risk reporting are in place but a minority of companies continue to provide a minimum and comply with the letter of the law only. We believe that regulators might seek to change behaviour *vis a vis* the existing framework before proposing new requirements, but investors will be disappointed if they expect auditors to remedy the provision of scant or poor quality information about business risks by requiring them to report on significant areas of audit risk. Business risks and significant audit risks are not the same. Auditors cannot disclose what they are not privy to and management will not furnish auditors with information that they are not prepared to disclose themselves. We encourage regulators to apply greater pressure to companies to provide better quality disclosures, even when they satisfy the minimum

¹The report of the working group can be found at www.icaew.com/en/technical/audit-and-assurance/audit-quality-forum-aqf/fundamentals

requirements. If the minimum requirements are in fact inadequate, they should be improved. In February 2011, the UK's Financial Reporting Review Panel highlighted the need for better reporting by companies of the principal risks and uncertainties they face.²

11. The FRC's September 2011 papers *Boards and Risk – A Summary of Consultations with Companies, Investors and Advisors* and *Effective Company Stewardship - Next Steps*³ propose that company narrative reports focus primarily on strategic and major operational risks rather than indiscriminate lists of risks that all companies face. It is proposed that the audit committee's remit should be extended to include consideration of the whole annual report and to ensure that the report, viewed as a whole, is fair and balanced. There are also proposals regarding auditor reporting on inconsistencies between the annual report and the financial statements and for a financial reporting laboratory in which preparers, auditors and other stakeholders experiment with novel forms of reporting.
12. While ICAEW is an international body, in this response we give a number of examples of changes that have been proposed or implemented in the UK. All of these examples are predicated on the UK corporate governance framework which is not in place elsewhere. We recognise this limitation. Nevertheless, we offer these examples in order to demonstrate the manner in which high-level principles might be applied at a local level.

The Significance of Corporate Governance Regimes and the Desirability of Convergence

13. Auditor reporting is an area in which there is a pressing need for high-level principles which can be topped and tailed to meet local needs. We consider ourselves champions of international auditing standards in the UK and we engaged at a very early stage with investors through the AQF. Despite all of this, we struggled to adopt international standards on auditor reporting which reflects, among other things, the difficulties associated with prescription in this area. The diversity of practice in auditor reporting is more entrenched than diversity in audit practice generally not simply because auditor reporting is often legislated, but because of the incentives and disincentives to convergence arising from different corporate governance models and the different strengths, capabilities and focus of audit committees and auditors in different jurisdictions. Answers to auditor reporting questions depend on local governance frameworks and no auditing standard-setter or regulator is in a position to engineer change in this area without engaging all of the relevant stakeholders, and there are many. Attempts to do so by means of prescription in auditing standards are unlikely to be successful and may lead to unintended consequences, in the form of non-compliance with auditing standards and more defensive auditor behaviour which risk bringing standard-setters into disrepute. We encourage the PCAOB and IAASB to be diligent in their attention to each other's work in this area and urge them to co-operate as much as they can on their respective consultations. It would be a pity and a wasted opportunity if the two consultations resulted in further divergence which is a real risk, particularly if either or both bodies propose changes that are too prescriptive. We cannot avoid the impression that the number of questions in both consultations implies a premature attention to detail, rather than a broader consideration of the higher-level and more important issues, and we emphasise the suggested principles needed to underpin standard-setting noted in our key messages above.

Principles Underpinning Standard-Setting

14. Both the PCAOB and IAASB consultations propose two options: the first is enhancements to the current reporting regime without change to the fundamental premise of an audit in which independent auditors report on information prepared by companies; the second involves

² www.frc.org.uk/frpp/press/pub2503.html

³ www.frc.org.uk/press/pub2632.html

change to that fundamental premise whereby auditors produce original information about the company that is not already provided by management. We believe that auditors should only provide original information about companies in the exceptional circumstances in which it is required by law or regulation. The independent audit is predicated on this assumption and confusion will arise if the responsibility for reporting is split between auditors and management. Most audits are attest engagements which require independent auditors to report on information provided by management. Their strength derives from a combination of auditor independence and the pass/fail model. Other models may be more fluid, may not require auditor independence and may permit original reporting by auditors. All have a place, but they should not be mixed together to avoid calling into question the all-important pass/fail assessment. Furthermore, we believe that it is likely that both options may lead, rightly or wrongly and whether intended or not, to changes in the conduct of audits and auditor behaviour, and that those changes may not necessarily be positive. The more detailed the proposals, the more likely it is that behaviour will change. The IAASB and the PCAOB need to be aware of the possibility of more defensive auditing whereby auditors perform procedures in order to mitigate the risk of claims rather than to improve the quality of the audit, of a greater level of involvement of lawyers in the reporting process, and of less frank exchanges with management and audit committees if more of what is discussed is likely to be reported.

15. There are calls for the demystification of the audit process and for information about both the audit and the audited entity to be provided. Some additional information may usefully be provided by auditors about the audit and by management about the audited entity. We believe that there is merit in careful consideration of the possibility of auditor reporting on significant audit risks, either within the audit report or elsewhere, however, we believe that there is a lot of work to be done if boilerplate is to be avoided. Business risks as reported by the entity are not the same as significant audit risks, although in many cases they cover similar ground, and it is important that all stakeholders are clear as to the difference to avoid confusion as to whose 'version of reality' is to be believed. Current auditing standards do not equip auditors to report on business risks and while they can be developed, for auditors to report on business risks that are not also audit risks would compromise their independence and result in them substituting their judgement for, or subordinating their judgement to, that of management, instead of attesting to management's assertions.
16. Investors involved in this debate are already well aware that audit quality, on which they seek more information, comprises many elements and is not something that can be demonstrated quickly or easily. They are also aware that the provision of some of the information called for may be interesting, but that it will not enable informed decisions to be made about audit quality. Furthermore, investors are well aware that any information provided to the audit committee takes place in the context of an extended dialogue with the audit committee. To ask auditors to provide that information out of context is likely to cause confusion.

Changes to the Format and Content of Auditor Reports and Longer- Lasting Improvements

17. While changes to the form and content of standard elements of the audit report may be relatively easy to achieve, and therefore attractive, we think it unlikely, on the basis of past experience, that they will significantly improve communications overall. Of themselves they are unlikely to have any significant effect on the information or expectation gaps. Equally, while we can support changing the placement and content of responsibility statements which might fulfil a desire among auditors to articulate their position more clearly, such changes are unlikely to make a significant impact on what users believe auditors are or should be doing, and any change risks an increase in the expectations gap.
18. While the need to cut clutter in financial reporting is not currently so much of an issue in the US as it is elsewhere, there are difficulties in reconciling calls for enhanced reporting made at the same time as calls to cut clutter. In some jurisdictions, continuing to add to the financial statements and auditor reporting has already resulted in overload and a complex navigation

exercise to determine what is relevant, and what has been audited, reviewed or read and what has not. It is clear, at least in Europe, that investors want more relevant, better information which is sometimes already provided but can be difficult to find. Additional disclosures should not be provided merely to satisfy curiosity and investors in listed companies should explain how the information called for will be used in the decision making process. We support, as noted above, the concept promulgated by the FRC of a financial reporting laboratory in which preparers, auditors and other stakeholders consider novel forms of reporting, how to avoid the natural tendency to revert to boilerplate, and how users of financial information can better navigate the information that is already made available to them.

19. We believe that both the PCAOB and the IAASB need to take a step back and consider the issue of auditor communications in a holistic manner. We are pleased that the IAASB has recognised the importance of corporate governance in this context but we believe that concrete proposals are premature. Both consultations focus heavily on the detail of auditor reporting and both are light on the need to balance the broad issues of investor needs, which are not homogenous, their desires, which are not necessarily the same as their needs, and what auditors and management are able to legitimately and usefully provide. Both consultations are also light on the inhibitory effects of the liability regime on auditor willingness to report.
20. Financial reporting has changed in recent years. There is a perception that auditor reporting has not kept up and there is certainly an appetite for change both in Europe and the US. We believe that it is essential that changes are real, that the costs are recognised, and that benefits can be measured. A great deal of heat and light may be generated in this debate but it is essential that change does in fact lead to greater investor satisfaction and convergence internationally, and that regulators and the profession do not simply make change in order to be seen to be doing so. We do not believe that, as has been suggested, that the benefits of the proposals can be realised at no cost, or are cost-neutral and we urge the PCAOB and the IAASB not to disregard this issue.

IAASB Proposals

21. We believe that there is merit in exploring the provision of assurance or agreed-upon procedures engagements on additional information outside the scope of the financial statement audit. Expanding the description of work done in financial statement audits in ever-expanding and complex areas is not helpful and not relevant to owner-managed businesses.
22. It may be helpful for IAASB to seek to facilitate a dialogue on governance issues but such issues are deeply entrenched locally and any proposals need to be kept at a very high level in order to ensure that convergence rather than divergence is the result - concrete proposals at this stage are in any case premature.
23. Input is needed from all stakeholders but it is important to note that investors and users are not homogeneous groups, and our contact with them shows that they have disparate needs and different and often conflicting views. The demands for change, which we believe will come at a cost, are largely from a vociferous group of investors in larger listed companies and these demands should be justified in the context of decision making. There is no need for smaller companies to be subject to all of the reporting requirements of larger companies.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

24. It is important to take a holistic approach to auditor reporting and we are pleased to note the recognition of the fact that the reporting model is not broken and that auditor reporting has value. The success and the importance of the pass/fail model should not be underestimated or obscured. Companies can neither obtain nor maintain listings on the world's stock exchanges

if they fail, and a huge amount of effort goes into obtaining a pass. Companies in transition economies often do not pass and the sometimes manifold reasons for their failure are often listed in auditors' reports. We emphasise IAASB's note in Section 2 about the need for more transparency in (a) the reporting of key financial reporting risks and how they are being addressed, and (b) about the performance of the audit and key audit risks. But we caution against an underlying message in this debate that deficiencies in financial reporting can be addressed by means of enhanced auditor reporting. We believe that there is a strong case for addressing deficiencies in financial reporting by better application of the requirements that already exist and by means of additional reporting requirements, if necessary. Frameworks for risk reporting are in place but a minority of companies continue to provide a minimum and comply with the letter of the law only. We believe that regulators might seek to change behaviour *vis a vis* the existing framework before proposing new requirements. Investors will be disappointed if they expect auditors to remedy the provision of scant or poor quality information about business risks by requiring them to report on significant areas of audit risk. Auditors cannot disclose what they are not privy to and management will not furnish auditors with information that they are not prepared to disclose themselves. We encourage regulators to apply greater pressure to companies to provide better quality disclosures, even when they satisfy the minimum requirements. In February 2011, the UK's Financial Reporting Review Panel highlighted the need for better reporting by companies of the principal risks and uncertainties they face.⁴ If the minimum requirements are in fact inadequate, they should be improved

25. The FRC's September 2011 papers *Boards and Risk – A Summary of Consultations with Companies, Investors and Advisors* and *Effective Company Stewardship - Next Steps*⁵ propose that company narrative reports focus primarily on strategic and major operational risks rather than indiscriminate lists of risks that all companies face. It is proposed that the audit committee's remit should be extended to include consideration of the whole annual report and to ensure the report, viewed as a whole, is fair and balanced. There are also proposals regarding auditor reporting on inconsistencies between the annual report and the financial statements and for a financial reporting laboratory in which preparers, auditors and other stakeholders experiment with novel forms of reporting.

Q2: 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?

26. Better application of the requirements to disclose key financial reporting risks would do much to narrow the information gap. Changes to the auditor liability regime are also necessary if auditors are to be reasonably expected to be more forthcoming in what they report and the paper hardly touches on this. There is little in the way of an information gap for smaller entities.

Q3: Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

27. It is important to recognise that the issues raised in this paper are largely relevant to listed and larger entities. It would be unwise to burden smaller entities or their auditors with unnecessary reporting requirements.

Exploring Options for Change

A. Format and Structure of the Standard Auditor's Report

⁴ www.frc.org.uk/frfp/press/pub2503.html

⁵ www.frc.org.uk/press/pub2632.html

Q4: 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?

28. The proposals for change are all worthy of consideration, but we do not believe that they are likely to reduce the information or expectation gaps. We note in our concurrent response to the PCAOB that while changes to the audit report may be an attractive and relatively straightforward option, we think it unlikely, on the basis of past experience, that of themselves they will enhance auditor communications much. Equally, while we can support changing the content of responsibility statements, and such a change might fulfil a need among auditors to articulate their position more clearly, it is unlikely to have a significant impact on what users believe auditors are or should be doing, and any change risks increasing the expectation gap.

Q5: 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 expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

29. In the UK there has been some take-up of an option to refer readers of audit reports to a website in order to read statements regarding the scope of the audit. Changes in this area are likely to make auditors feel better about having articulated their position more clearly but that they are not, as boilerplate, likely to have much effect on user perceptions on what auditors are or should be doing.

B. Other Information in Documents Containing Audited Financial Statements

Q6: 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?

30. The auditor's responsibilities regarding other information are included in UK audit reports which is considered useful but there is a general consensus that the manner of reporting, which is 'by exception' (i.e. only where there is a problem), is not particularly helpful.

Q7: 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?

31. There are many local requirements for auditors to report on 'other information' which tends to be an area in which jurisdictions vary. We do not believe that substantial changes to ISA 700 will improve this situation, indeed they may make it worse by adding to what are often redundant requirements.

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

Q8: Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

32. UK and other auditors already report on significant audit risks to audit committees and at one level, it is logical for the audit committee to disclose them. Auditors would not report on these matters. However, to the extent that the subject matter is already covered by the reporting of risk by preparers, there may be some merit in auditor reporting of significant audit risks either in the audit report, but not as an emphasis of matter, or outside the audit report in a separate statement. We believe that such reporting is likely to be costly.

- 33.** We note above that we do not believe that auditors should provide original information about companies because if they do, they are no longer independent of the company or the information they report on. We also note that changes to auditor reporting, and particularly substantial changes such as these, may lead to changes in the conduct of audits and auditor behaviour that may not necessarily be positive. IAASB needs to be clear whether it wants auditors to conduct their audits differently, or simply to report differently. It needs to be aware that the latter might not be the outcome, even if it is the intention. There is a possibility that risk reporting may lead to a greater level of involvement of lawyers in the reporting process and more cautious exchanges with management and audit committees if more of what is discussed is likely to be reported.
- 34.** Reporting on significant risks may be of some value but it is likely to degenerate into boilerplate over time. To begin with, any new type of reporting that is not heavily prescribed will lack consistency, particularly across organisations. Over time, consistency will be achieved but boilerplate will have crept in. This is not of itself necessarily an evil, rather it is just one dynamic of reporting. The simple process of introducing new reporting requirements results in more reading of reports which helps user understanding, even if over time this drops off.
- 35.** Reporting of significant audit risks will cover most areas of significant audit judgement and significant audit difficulty. We do not believe that reporting on materiality or significant internal control deficiencies within the audit report would be feasible without a high risk of misunderstanding given the complexity of both matters and the need for context. We also caution against cluttering what is already a lengthy report, even for smaller entities.

Q9: 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.

- 36.** There are mixed views of the effectiveness of French justifications of assessments. They can appear to provide interesting information but closer inspection sometimes reveals a level of boilerplate that is not at first apparent.

Q10: 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.

- 37.** We believe that 'insights about the entity or the quality of its financial reporting', while superficially attractive, particularly those concerning the 'aggressiveness' of accounting policies and the 'effectiveness' of the governance regime, are both far too vague and subjective for auditors to report on publicly within the current liability regime that prevails in many jurisdictions and would amount to the director's opinion being pitted against that of the auditor. We fail to see how this is would be more helpful to investors than the current pass/fail model. If financial statements fairly present the position, by definition the quality of financial reporting must be satisfactory.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

Q11: 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.

- 38.** We are pleased that IAASB has recognised the relevance of the wider issue of corporate governance to auditor reporting and we believe that IAASB could usefully take this debate to different jurisdictions in order to obtain an in-depth and balanced view.

Q12: 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?

39. Different methods of corporate governance are both deeply entrenched and changing. We believe it important to keep recommendations at a high level in order to accommodate different ways of doing things, and premature to be making concrete proposals at this stage.

Q13: Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

40. In the UK, we believe that consideration might be given to auditors providing assurance on a report issued by the audit committee, excluding those parts covering information provided by the auditor and other matters such as auditor appointment, independence and other services, but that the principal issue to address in the first instance is that of the audit committee report itself, which involves liaison with representatives of audit committees.

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

Q14: 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.

Q15: What actions are necessary to influence further development of such assurance or related services?

41. IAASB is already considering assurance on matters such as sustainability. It needs to consider whether there is market demand for assurance on corporate governance arrangements, business models, enterprise wide risk management, internal control or KPIs. We suspect that there is demand for assurance on KPIs, for example, but that the current cost of assurance on the other issues may be prohibitive.
42. Extending the scope of reporting to measures of alternative earnings is by definition self-defeating because any standardisation means that measures are no longer 'alternative', and adjustments would be made leading to further 'alternative measures'. Agreed-upon procedures are often the most appropriate form of auditor involvement in alternative measures. Reporting on alternative measures does not belong in the audit report.
43. Reporting on internal controls is expensive and we believe that while it may change behaviour, it may only do so briefly. Costs and benefits do not really stack up and there is no clear framework for reporting in this area, for regulatory reporting purposes or otherwise.

Q16: 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.

44. While we believe that there is some merit in considering change to the format and structure of the audit report, the value of the audit report lies in what it signifies in terms of pass/fail, rather than what it says. This changes if auditor commentary on matters such as significant audit risks is included. The costs of the latter should not be underestimated and the likelihood that it will be quickly reduced to boilerplate for the sake of consistency within entities over time is significant.
45. We encourage IAASB to promote further dialogue about the costs and benefits of the new areas of assurance it suggests in paragraphs 23 and 88 of the consultation document.
46. Changes to entrenched corporate governance models will take time to achieve and we believe that while it will be helpful for IAASB to facilitate this debate, change in the near future is more likely to be in the two other areas.

Q17: Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

47. The relative costs of any change are likely to be proportionately greater for smaller entities and the benefits very limited, if they exist at all.

Q18: 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?

48. On changes to the structure of the audit report, we caution against a quick fix in order to be seen to be doing something. The standard reporting model is not broken and changes to the structure of the report are not likely to result in a significant reduction in the expectation or information gaps.

49. Auditor responsibilities for other information in the annual report might be usefully explored as might the possibility of auditor commentary on significant risks, and assurance or agreed-upon procedures on matters not within the scope of the financial statements. IAASB needs to be clear about whether it intends to change the conduct of audits, and to what extent, if these proposals are developed.

50. We do not believe that standard-setters have locus to propose changes to corporate governance models without convening the relevant stakeholders.

51. Whatever is proposed must be high-level and principles-based in order to accommodate different corporate governance structures.

Q19: 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?

52. No.

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