

Enhancing the Value of Auditor Reporting: Exploring Options for Change



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) approved this Consultation Paper, *Enhancing The Value Of Auditor Reporting: Exploring Options For Change*, for publication in May 2011. This consultation paper may be modified in light of comments received before being issued in final form.

Respondents are asked to submit their comments **electronically** through the IAASB website (www.iaasb.org), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IAASB website.

Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to:

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Comments should be submitted by **September 16, 2011**.

Copies of this Consultation Paper may be downloaded free of charge from the IAASB website at www.iaasb.org.

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The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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CONSULTATION PAPER

ENHANCING THE VALUE OF AUDITOR REPORTING: EXPLORING OPTIONS FOR CHANGE

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Preface

Recent discussions, consultations and studies have focused on the value to users of auditor reporting in connection with the audit of financial statements. Building on the views and perspectives noted from those efforts, this consultation further explores the topic of auditor reporting from an international perspective. The feedback obtained from this consultation will be used to inform the International Auditing and Assurance Standards Board's (IAASB) views about possible future standard-setting projects on auditor reporting.

There have been a number of improvements to the standard auditor's report over the past few years, including clarification of the scope of the audit and the respective responsibilities of management and the auditor. These improvements were intended to address the expectations gap and, more recently, to promote international consistency in auditor reporting. Some market participants are suggesting that now is the time for a more fundamental review of auditor reporting. These suggestions have been made because of perceptions that auditor reporting is not meeting the information needs of financial statement users in a global business environment with increasingly complex financial reporting requirements.

The IAASB is consulting across a broad range of users globally to better understand the extent to which these views are held for audits of financial statements of various types of entities and across different jurisdictions, and to explore options for change that may help achieve reporting that better meets users' information needs, thereby to enhance the value and relevance of auditor reporting. Feedback is being sought from different groups of users of audited financial statements, as well as from preparers, auditors and regulators. The IAASB believes that obtaining a better understanding about views on the issues raised in this Consultation Paper is an important pre-requisite to considering possible improvements in auditor reporting.

The IAASB encourages all stakeholders to respond to this Consultation Paper. Questions are raised in a number of areas where the IAASB would like to obtain a better understanding of the relevant issues, and how best to address them. In addition to addressing the specific questions, respondents may wish to make more general comments, including providing information from other policy initiatives or research that they believe is relevant to the issues raised in the Consultation Paper.

I. Introduction

1. The purpose of this international consultation is to determine whether there are common views among key users of audited financial statements and other parties to the financial reporting process about the usefulness of auditor reporting, and to explore possible options to enhance the quality, relevance and value of auditor reporting.
2. Section II of this Consultation Paper sets out issues with current auditor reporting identified by some stakeholders in some jurisdictions. They have been identified through previously commissioned academic research and the IAASB's outreach activities, and through various initiatives undertaken in a number of jurisdictions.¹ The issues are discussed in the context of the long-standing "expectations gap" and the more recently identified "information gap" affecting users of financial statements, particularly investors.²
3. Section III explores possible options for change to narrow the "information gap" perceived by some users or to improve the communicative value of the auditor's report. It is possible that some users, such as users of financial statements of smaller entities, may have differing views about the extent to which they believe the "information gap" exists. As part of this consultation, the IAASB is seeking the views of respondents about whether or not the possible options for change would also address needs of users of audited financial statements of smaller entities. The IAASB also recognizes that there may be other options for changing auditor reporting not addressed in this Consultation Paper that could also be explored and welcomes any additional suggestions that respondents may have.
4. Section IV aims to draw out respondents' views about implications for change and potential implementation challenges in the various options for change.

II. Background

5. Today's increasingly global and complex business environment and the turbulent events of the global financial crisis have highlighted the critical importance of credible, high-quality financial reporting. The current environment and events also have stimulated the demand for additional, and more pertinent, information about entities and the processes that support the quality of their financial reporting. Existing shareholders, potential investors and others look to reduce the level of uncertainty in their decisions by seeking information they consider to be relevant and reliable.
6. Achieving high-quality financial reporting depends on a jurisdiction's financial reporting infrastructure put in place for that purpose. The legal and regulatory environment, including reporting rules and policies relating to corporate governance, the requirements of the applicable financial reporting framework, and standards governing behavior of

¹ See IAASB agenda materials tabled in December 2010 and December 2009 respectively: <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5854> and <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0169&ViewCat=1191>.

² For example, as discussed in the Consultation Report, *Auditor Communications* issued by the International Organization for Securities Commission's Technical Committee in September 2009.

participants in the financial reporting supply chain are all interrelated inputs to corporate financial reporting.

7. Equally, high-quality financial reporting depends on the decisions of those within individual entities who have responsibility for financial reporting—management and those charged with governance—about information that is made available to users. These decisions are made in the context of a jurisdiction’s financial reporting infrastructure, with input from those charged with governance and the independent auditor. Continuous improvement in financial reporting requires an ongoing commitment by regulators, investors and other users, standard-setters and policy makers to review and strengthen the components of the financial reporting infrastructure process that they influence.
8. The external audit plays an important role in supporting the quality of financial reporting around the world, whether in the context of the capital markets, the public sector or the private or non-public sector. It is an essential part of the regulatory and supervisory infrastructure. At the same time, a number of factors influence what is and can be expected from the audit, and what can or should be communicated by the auditor to users of financial statements. These factors include the nature of financial reporting, the practical and legal limitations on the auditor’s ability to obtain and disseminate information, and the need for the audit to be conducted within a reasonable period of time and at a reasonable cost.
9. Auditor reporting is only one element of the broader corporate reporting process, but plays an important role in communications with users. Accordingly, the value and relevance of the auditor’s report needs to be monitored and maintained and, as appropriate, enhanced.

Issues Identified

10. Recent discussions, public consultations and research studies on the topic of auditor reporting have generated a significant body of information³ about users’ perceptions of the relevance and usefulness of auditor reporting, particularly in the context of listed entities.
11. The issues raised go beyond the independent auditor’s report on an entity’s audited financial statements. Corporate reporting in several jurisdictions also includes narrative disclosures about an entity’s financial condition and operating results and a wide range of other non-financial information made available to users in a variety of ways, including through public filings. The debate has therefore also focused on the extent to which independent assurance regarding the reliability and completeness of this broader range of corporate information would help financial statement users to make more informed decisions.
12. Information gathered to date signals that:
 - (a) The financial statement audit and the independent auditor’s opinion on an entity’s financial statements are valued. However, other than communicating the auditor’s overall conclusion, the content of the auditor’s report is not viewed as being as useful or informative as it could be.

³ Appendix 2 provides a reference of the relevant background information sourced for purposes of this Consultation Paper.

- (b) Users recognize there is richer information about the entity and about the audit itself than is currently being provided through the audited financial statements and other corporate disclosure mechanisms, and through the auditor's report. Users wish to obtain this richer information directly from the entity and/or through communications about the auditor's insight into such matters. They believe such information would assist them in assessing the financial condition and performance of the entity, as well as the quality of its corporate reporting and the quality of the audit. This is referred to as the "information gap." This is not the same as the "expectations gap," but overlaps with it. Both are discussed further below.
- (c) Some users also believe that the communicative value of the auditor's report could be improved if changes were made to the structure and wording of the auditor's report.
- (d) There are many potential options for changes that might address these concerns, including some shorter-term options that fall under the IAASB's mandate and some longer-term options that would require co-operation with organizations whose mandate extends to other regulatory and legislative frameworks.

The Expectations Gap

- 13. The "expectations gap" has been defined and described in a number of ways. In the broadest terms, the expectations gap is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. This long-standing expectations gap often is attributed, in part, to a misunderstanding by users about the nature of an audit, including its scope, objectives and inherent limitations.
- 14. In particular, there continues to be a difference between public perceptions about the auditor's ability to detect financial statement fraud and the auditor's responsibilities relating to fraud under existing professional standards.
- 15. It also has been suggested that the expectations gap results, in part, from the manner in which auditors communicate their findings to users of financial statements. Because the standard auditor's report uses generic language to describe the auditor's work effort, users do not get a complete picture about the extent of the auditor's procedures on a particular audit and therefore feel left with a "gap" between what is actually done and what they perceive is done in connection with the audit.
- 16. Academic research shows that user perceptions of audit quality are influenced by the communicative value of the auditor's report. The standard auditor's report provides little information to evaluate the quality of the audit, in part, because it does not disclose information about the procedures performed and the extensive judgments made by the auditor in forming the audit opinion. Increased transparency about the audit process may therefore have a beneficial effect on perceptions of audit quality.
- 17. In this context, the views provided by some capital market participants—investors and financial analysts, among others—suggest that auditor reporting needs to further evolve to meet users' needs.

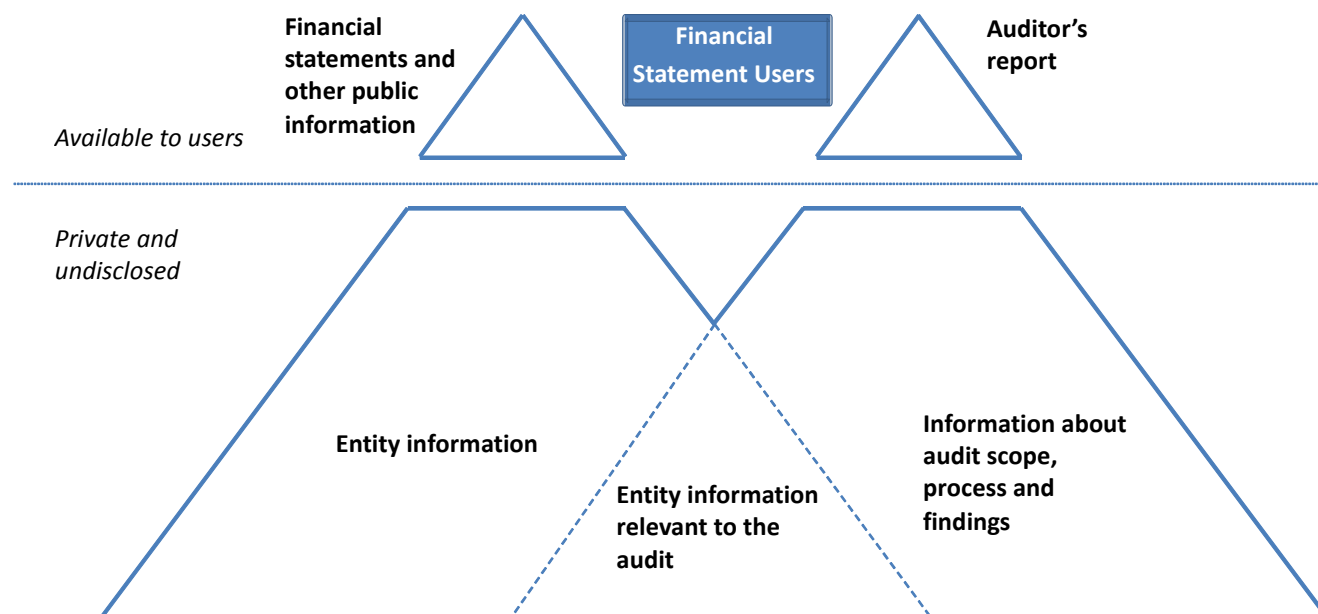
The Information Gap

18. Users of corporate financial information point to the existence of a gap between the information they believe is needed to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements or other publicly available information.
19. This "information gap" has implications for the efficiency of capital markets and the cost of capital. The information gap is also seen as increasing the challenges of understanding how corporate financial information, including the audited financial statements and related disclosures, reflects the overall picture of the entity's financial condition, performance and sustainability of its business—an already considerable challenge especially in situations of economic turbulence.
20. Some suggest that the information gap is partially attributable to weaknesses in the financial reporting frameworks or their application, particularly in relation to disclosures that are key to users' understanding of the entity and its financial statements.⁴ Nevertheless, many acknowledge that the complexity inherent in the business and reporting environment means that audited financial statements alone are unlikely to provide users with all the information they need for their financial analysis and decision-making.
21. Users recognize that the information available to them, including an entity's audited financial statements and the auditor's report thereon, is only a part of the wider information set available to management of an entity and/or to the entity's independent auditor. By design, through the established financial reporting frameworks and relevant laws and regulations, this smaller subset of the available information is intended to provide users with a relatively concise summary of information relevant for their decision-making. This is illustrated in **Diagram 1** below.
22. A perception exists that there should be more transparency about:
 - (a) The entity and its financial statements, particularly key financial reporting risks and how they are being addressed; and
 - (b) The audit performed, including key areas of audit risk.

This leads to consideration of what the available, and most appropriate, channels are for narrowing the information gap by providing this type of additional information to users.

⁴ See IAASB Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*, issued in January 2011.

Diagram 1: Illustration of the “Information Gap”



23. Conceptually, the perceived “information gap” could be narrowed by the disclosure of additional information that is currently not available to users. In principle, such information could be provided to users through some combination of additional reporting by management or those charged with governance, or by the auditor. Some investors and analysts in particular, however, view the auditor’s insight into the entity and its business obtained through the audit of the entity’s financial statements as being especially relevant information for their needs, and have suggested that the auditor could report on the following types of additional information:
- Key business, operational and audit risks the auditor believes exist.
 - The auditor’s perspective on the key assumptions underlying the judgments that materially affect the financial statements, and whether those assumptions are at the low, most likely, or high end of the range of possible outcomes.
 - The appropriateness of the accounting policies adopted, including any that are inconsistent with industry practice.
 - Changes to accounting policies that have a significant impact.
 - The methods and the judgments made in valuing assets and liabilities.
 - Significant unusual transactions.
 - Key audit issues and their resolution which the engagement partner documents in a final, summary audit memo.
 - Quality and effectiveness of the governance structure and risk management.

24. Some contend that it is important that additional information such as that described above be delivered directly from the auditor to users. In their view, the fact that such information would be communicated by the independent auditor adds a degree of credibility to the information communicated, and would impart an important—and possibly different—perspective that has been informed through the ongoing discussions and communication between the auditor, management and those charged with governance. However, others believe that it is inherently wrong for the auditor to originate information about the entity for users and that this would undermine the importance of the division of responsibility between the entity and its independent auditor, which risks reducing the clarity of financial reporting. The notion of information about the entity being provided from two sources (“dueling” information) is explored further in paragraph 64.

Perspectives on the Issues

25. This Consultation Paper does not exhaustively address experiences and views of all types of users of audited financial statements. Some types of users have been forthcoming in their views on auditor reporting (large investors and financial analysts in particular). Other types of users may or may not share these concerns about auditor reporting or indeed could have other concerns that have not yet been identified.
26. An important aspect of this consultation is to establish the degree to which the issues identified and discussed in this Consultation Paper are shared by different groups of users, or whether there are factors that should lead to different solutions for different types of entities.

Perspectives for Audits of Smaller Entities

27. Some are of the view that auditor reporting for audits of smaller entities may be relatively less affected by the identified issues. The financial reporting environment may be less complex for smaller entities, and such entities typically have a narrower range of users that already may be able to obtain additional information about the entity through ongoing interactions with management.
28. Others hold the view, however, that it is important, as a matter of principle, to retain consistency in auditor reporting for all types of entities, regardless of their size. They note that it often proves difficult to draw clear and consistent boundaries between entities on the basis of size. These considerations may also vary between different countries or jurisdictions.
29. Recognizing the unique needs of small- and medium-sized entities (SMEs), the IAASB encourages feedback on matters addressed in this Consultation Paper from users of SME financial statements and small- and medium-sized practitioners.

Public Sector Auditing Perspectives

30. The public sector auditor’s responsibilities typically are derived from the audit mandate, or by obligations of public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than the audit of financial statements for entities in the private sector.

31. Auditor reporting requirements germane to public sector audits are addressed in the pronouncements of the International Organization of Supreme Audit Institutions (INTOSAI)⁵ or the relevant national standard setters in respect of public sector audits, or in guidance developed by government agencies.
32. Not all of the issues addressed in this Consultation Paper are necessarily relevant for auditor reporting in the public sector. For example, for various reasons in different jurisdictions, audits of public sector entities often include lengthier and more explanatory reports in addition to the standard auditor's report. In addition, the public sector audit mandate often includes wider reporting on aspects of performance (for example, about whether public expenditures meet the aims of probity, efficiency and effectiveness) to facilitate an independent public assessment of whether such expenditure is efficient and effective in light of whatever public benefits are intended to be derived therefrom. Nevertheless, the IAASB encourages feedback on the matters addressed in this Consultation Paper from public sector auditors and users of audited financial statements of public sector entities. Further, to the extent the issues are relevant to the public sector the IAASB expects to work with INTOSAI and national standard setters for public sector audits, where applicable, to further address any special considerations that may be necessary.

Questions

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?
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?
3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

III. Exploring Options for Change

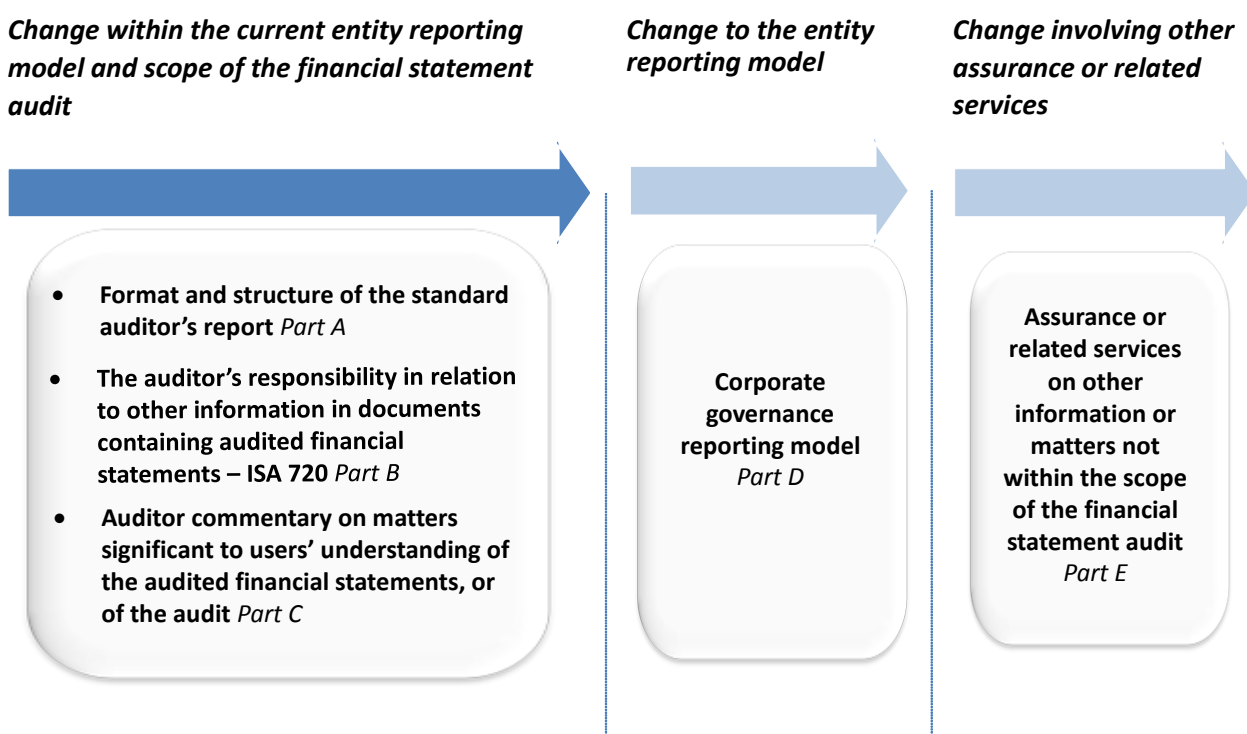
Options to Enhance the Usefulness of Auditor Reporting

33. This section sets out possible options for change to narrow the information gap perceived by users or to improve the communicative value of auditor reporting. The various options are illustrated in **Diagram 2** below.
34. Certain of these options, either individually or in combination, may be favored by different groups of users with respect to meeting their information needs or enhancing their perceptions of the value of auditor reporting. It also is recognized that some options could

⁵ The INTOSAI Financial Audit Subcommittee (FAS) has developed INTOSAI guidelines based on the clarified ISAs, referred to as the International Standards of Supreme Audit Institutions (ISSAIs) for financial audit. An INTOSAI guideline consists of a Practice Note and the ISA it refers to, or of a newly written INTOSAI guideline and general guidance on public sector issues.

be implemented in combination to increase their overall effectiveness in addressing the issues identified in Section II.

Diagram 2: Exploring Options for Change in Auditor Reporting



35. Some of these options can be accomplished within the existing corporate financial reporting model and current scope of the financial statement audit. Other options for change, however, are premised on the need for accompanying change(s) to the existing corporate financial reporting model and/or relevant law or regulation.

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

36. The following are potential ways to improve the communicative value of the current standard auditor's report:

- Considering the most useful presentation or positioning of generically-worded paragraphs explaining the respective responsibilities of management (or, where appropriate, those charged with governance) and of the auditor that appear in every auditor's report;
- Addressing the lack of common meaning of technical terms used in the auditor's report; and
- Changing the location of the auditor's opinion on the financial statements to give it greater emphasis.

37. Options for change in each of these areas are discussed below and are illustrated in Appendix 1 of this Consultation Paper.

Explanations of Management and Auditor Responsibilities

38. The standard auditor's report includes paragraphs that describe the respective responsibilities of management and the independent auditor. These paragraphs, added in the past to address some aspects of the expectations gap, are intended to provide essential contextual information for a reader's proper understanding of the auditor's opinion.
39. Academic research, however, indicates that readers perceive little information value in any content of the auditor's report other than the opinion on the audited financial statements. In particular, there is a view that those generically-worded paragraphs do little, if anything, to bridge the expectations gap relating to the financial statement audit.
40. Some are of the view that these paragraphs could say more about the respective responsibilities of management and of the auditor (for example, regarding fraud, going concern, risk, non-financial disclosures or auditor independence). In particular, it has been suggested that providing an expanded description of the auditor's responsibilities for the detection of fraud would be especially helpful in addressing the expectations gap.
41. To address these views, one option would be to relocate these paragraphs to a separate document used to communicate with users about the financial statement audit. In doing so, the paragraphs also could be expanded as suggested in paragraph 40, as appropriate. Such a document, devoted solely to communication of such matters, could be made available electronically in a publicly accessible online location. An example is the model being used by the Auditing Practices Board (APB) in the United Kingdom.⁶
42. A second option would be to remove these paragraphs entirely from the report. This would result in what some have termed an "opinion-only" report. This would assume that readers are already sufficiently well-informed about the matters addressed in those paragraphs and need not be reminded when they read the auditor's report. Evidence suggests this is generally not the case, even in respect of sophisticated users.
43. A third option would be to retain these paragraphs in the auditor's report (and, as appropriate, expand their content), but position them at the end of the report, or as appendix thereto, while highlighting that such information is an integral part of the report. This may assist in enhancing the readability of the report while retaining what many perceive as essential contextual information.
44. Several arguments have been advanced for retaining these paragraphs in the auditor's report. Among other things, the auditor's report remains a stand-alone communication from the independent auditor. In addition, although the importance of this "one-stop" communication may vary depending on the national liability regime, the inclusion of these paragraphs in the auditor's report promotes use of internationally consistent communications about the audit. Moreover, because these paragraphs were added to address the expectations gap, some have cautioned against their removal from the standard auditor's report. Those holding this view believe that removing these paragraphs entirely,

⁶ In the UK, auditors have the option, in consultation with audited entities if applicable, to remove the paragraphs containing generic explanations about the audit from the auditor's report. If this option is used, the auditor's report is to instead contain a reference to where this information can be read on the APB's website—see www.frc.org.uk/apb/scope/private.cfm.

in an attempt to improve the information value of the auditor's report, could in fact have the unintended consequence of widening the expectations gap.

45. In connection with these options for changing the auditor's report, others have commented on the need to develop educational material about the meaning of an audit and the role of the independent auditor that can be readily available to users. Over time, the availability of this information may relieve the need for such explanatory material to be included within the auditor's report itself. However, a broader consideration of educational material is beyond the scope of this Consultation Paper.

Use of Technical Language

46. Academic research has shown that certain technical words used in the auditor's report (for example, "fair presentation," "materiality," "material misstatement," and "reasonable assurance," to name a few), appear to mean different things for auditors and for readers of the report.
47. There has been a call for wording used in the auditor's report to be less technical. Some have even suggested exploring whether explanations of technical terms and elaborations of key aspects of the auditor's report could be provided to assist users' understanding. A critical consideration in exploring this, however, is the extent to which further explanations may either assist or hinder readers' understanding of the auditor's report.
48. The idea of explaining more fully the meaning of technical terms might be explored in combination with the idea of providing a fuller description of the respective responsibilities of management and of the auditor. However, the more that is attempted in this area, the less likely it may be that it can all be accommodated in the auditor's report on the financial statements, therefore making it more likely that some degree of 'relocation' may be required.

Location of the Auditor's Opinion

49. It is acknowledged that the auditor's report needs to clearly communicate the auditor's opinion on the entity's financial statements. To many users, this is the key element of the report.
50. The opinion is currently presented in the final paragraph of the report on the financial statements in the standard auditor's report. Some commentators have expressed the preference for the auditor's opinion to be given greater prominence. This could be accomplished, for example, through an "opinion-only" report as described above or by presenting the opinion in the first paragraph of the auditor's report. Others have argued for the opinion to be positioned after the paragraphs dealing with the responsibilities of management and of the auditor, so that the opinion will be read with the appropriate context.

Questions

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

B. Other Information in Documents Containing Audited Financial Statements

51. Under the current International Standards on Auditing (ISAs),⁷ the auditor is required to read the other information that is included in a document containing audited financial statements and the auditor's report thereon ("other information") in order to identify material inconsistencies, if any, with the audited financial statements. In the event the auditor identifies a material inconsistency, or if the auditor becomes aware of an apparent material misstatement of fact, the ISAs require the auditor to take appropriate action. This may involve providing additional commentary in an Other Matter(s) paragraph in the auditor's report to describe the material inconsistency.
52. The standard auditor's report in most jurisdictions is silent with respect to the auditor's responsibility for, or involvement with, other information. It therefore has been suggested that this creates ambiguity for readers about the auditor's responsibilities relating to that information. On the other hand, it has been noted that drawing attention to one, but not other, responsibilities of the auditor (for example, the auditor's assessment of the entity's ability to continue as a going concern) could potentially be confusing, or imply a higher level of responsibility for the other information.
53. Management Discussion and Analysis (MD&A), operating and financial review (OFR) statements, or other narrative sections of an entity's financial report are, however, increasingly being used by management to communicate relevant information to users, and users are attaching greater importance to such information for decision-making. Accordingly, some have suggested that auditors should be required to include a statement in the auditor's report about the auditor's responsibilities relating to other information in documents containing audited financial statements, or even a conclusion regarding such other information. This is already required in some jurisdictions.

⁷ The IAASB is currently revising ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. As part of this revision, the IAASB is considering whether the ISA continues to specify appropriate responsibilities of the auditor relating to the range of other information in documents containing or accompanying the audited financial statements and the auditor's report thereon.

Questions

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?

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

54. In addition to calls for further information about the audit, users of audited financial statements believe that the auditor possesses a great deal of information about the entity and the audited financial statements that would be of value to them in their decision-making.
55. For example, in the course of performing the financial statement audit, the auditor obtains or develops information about key areas of risk of material misstatement in the financial statements, critical accounting estimates and management judgments, as well as management's selection and application of accounting policies.
56. Some have suggested that expanded commentary about topics such as these in the auditor's report on the financial statements would provide greater transparency into the entity, its audited financial statements, and the audit performed.

Auditor Commentary—the Current Position

57. ISA 706,⁸ revised in 2007, provides for auditors to draw matters to users' attention through additional communications in the auditor's report. The auditor may draw users' attention, when in the auditor's judgment it is necessary to do so, to:
 - (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements (referred to as an "Emphasis of Matter" paragraph); or
 - (b) As appropriate, any other matter that is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report (referred to as an "Other Matter" paragraph).
58. In developing ISA 706, the IAASB deliberated whether to mandate or encourage such additional commentary while balancing the risk that too much "other" reporting would either lose its impact, or become boilerplate over time. Also important was to ensure that the additional information or commentary would in no way undermine the clarity of the auditor's opinion on the financial statements. It was recognized that a risk of excessive

⁸ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

“other reporting” might cause the auditor’s report to be ambiguous, or confuse readers as to the meaning of the auditor’s opinion on the financial statements. The caution was also expressed that the frequent use of “Emphasis of Matter” and “Other Matter” paragraphs could detract from the discipline needed by the auditor in forming an unequivocal opinion on the financial statements.

59. In addition, there is some research evidence pointing to the fact that the use of “Emphasis of Matter” and “Other Matter” paragraphs by auditors is widely misunderstood. The academic research indicates that such additional information is typically viewed by readers as being “negative,” and therefore equated with a qualification of the audit opinion.

Increased Use of “Emphasis of Matter” Paragraphs in the Standard Auditor’s Report

60. Notwithstanding the research evidence mentioned above, it has been suggested that the auditor can play a greater role in helping users navigate increasingly complex corporate financial reports by drawing attention to information within the financial statements, such as important disclosures, that the auditor believes is significant to users’ understanding of the audited financial statements.
61. Those holding this view believe that more frequent use of “Emphasis of Matter” paragraphs also could contribute to the quality of financial reporting by increasing the focus on such matters by management and those charged with governance, and by the auditor.

Providing Increased Information about the Audit

62. It has been suggested that additional paragraphs could be used in the standard auditor’s report to provide further information about the audit. For example, users have suggested that it would be helpful for information to be provided about:
 - Key areas of risk of material misstatement of the financial statements identified by the auditor, including critical accounting 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.
63. Some caution that providing such information could be problematic and may have the unintended consequences of further confusing users by:
 - (a) Raising questions about the financial statements or the audit process, for example specifying the materiality threshold used by the auditor without sufficient explanation

of the quantitative and qualitative aspects of the concept of materiality and how it is applied in the audit;

- (b) Creating possible doubt in the minds of users as to whether the additional information may affect the auditor's opinion; or
 - (c) Creating a perception that the auditor is expressing an opinion or conclusion on certain elements of the financial statements or certain disclosures.
64. In many of these areas, it may prove to be difficult to separate additional disclosure by auditors in the context of the audit from disclosure of additional information about the entity itself. For example, providing information about the auditors' views on critical accounting estimates may not necessarily correspond with the way such information is disclosed by management in the financial statements. This may give rise to the problem of "dueling" information about the entity as previously described.
65. Notwithstanding these concerns, there may be benefit in exploring whether further information can be provided about the audit, perhaps based on the auditor reporting model currently used in France, as discussed below.

An Example of Auditor Commentary – the Auditor's "Justification of Assessments" in France

66. The current auditor reporting model established in France was introduced some years ago and developed in the context of that country's law applicable to corporate reporting and auditing. The auditor is required to include a separate section in the auditor's report on the financial statements for French statutory audits, referred to as the "justification of assessments," where the auditor identifies certain key areas of the financial statements and provides information about the auditor's procedures in those areas.⁹
67. A recent survey was carried out in France among groups representing a wide range of users, to obtain views about the usefulness of the additional disclosures by the auditor.¹⁰ The value ascribed to the additional disclosures by the auditor varied considerably among the survey respondents.
68. The following are among the perceived benefits of such disclosures:
- They complement the current pass/fail nature of the auditor's opinion and enhance the communicative value of the auditor's report even when the auditor's report is unqualified.
 - They serve as an aid in reading the financial statements, which in many cases are viewed by users as being more difficult to navigate and understand given the increasing complexity of financial reporting.

⁹ See examples of the auditor's report as required in France in the March 2011 IAASB meeting agenda materials, available at: <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6046>, and <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6047>.

¹⁰ Available at http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf

- They serve as an alert to readers by highlighting specific areas of the financial statements, and focusing readers' attention on more subjective areas of the financial statements that are of interest.
 - They enable the auditor to better explain what the audit involved, and what areas were of concern.
69. The survey also pointed to some areas of difficulty and challenge in using these disclosures, for example:
- They may not be readily understandable by less-knowledgeable users of audited financial statements, for reasons such as:
 - They typically use technical language that can only be fully appreciated by those with appropriate background in financial reporting and auditing; and
 - They sometimes are complex to read.
 - They may become standardized (or boilerplate) over time in relation to an entity, and the way they are presented in the auditor's report may detract from the readability of the report.
 - The auditor tends to view the disclosures as increasing their exposure to liability.
70. The survey also indicated that the auditor needs to be careful not to provide information about the entity that has not been disclosed by the entity itself. Accordingly, more extensive dialogue is typically needed with the entity's management and audit committee about the disclosures the auditor intends to make in the auditor's report.
71. In summary, although the survey seems to raise questions as to whether the perceived benefits from the "justification of assessments" disclosures fully outweigh the auditor's areas of difficulty and challenge, at this stage the results of the survey nonetheless indicate that the concept of auditor commentary is worthy of further consideration.

Providing Auditor Insights about the Entity or the Quality of its Financial Reporting

72. Linked to the discussions on auditor commentary, there have been calls for the auditor to share insights and perceptions about the entity or the quality of its financial reporting based on the work done for the financial statement audit. For example, some have suggested that the auditor should share insights and perceptions about:
- 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.
73. However, it is generally recognized that the auditor is not responsible, and should not take responsibility, for disclosure of information about the entity to users of the entity's audited

financial statements: that must remain the responsibility of management and those charged with governance. This is necessary not only for there to be clarity about the respective roles and responsibilities of management and those charged with governance, and of the auditor, but also for the effectiveness of the independent audit function. As mentioned previously, there has been considerable concern expressed about the possible situation where users are faced with the challenge of interpreting competing disclosures about the entity from management and the independent auditor.

74. Additional challenges in reporting by the auditor (in the form of additional commentary, or otherwise) on matters that are not disclosed by the entity itself, especially on matters unrelated to auditor's opinion on the financial statements, include the following:
- The development of suitable criteria to enable additional reporting by the auditor on an objective, transparent and consistent basis.
 - The potential for conflict with provisions of national law and regulation concerning privacy, confidentiality, or market disclosure rules, and the additional liability exposure that would arise for the auditor.
 - Jeopardizing relationships that are essential to audit quality (for example, if the audit process was weakened due to reluctance by management or those charged with governance of the entity to communicate openly with the auditor).

Questions

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.
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.
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.

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

Oversight Role of Those Charged with Governance – the Current Position

75. Those charged with governance of an entity have the responsibility to oversee the financial reporting process. Effective two-way communication is important in assisting the auditor and those charged with governance in understanding matters related to the audit in context and in developing a constructive working relationship. To facilitate this, the ISAs require the auditor to communicate with those charged with governance on a number of matters.¹¹
76. In some countries, for example the UK and the United States, corporate governance oversight of the entity's financial reporting to external shareholders, and of the external audit, is

¹¹ ISA 260, *Communication with Those Charged with Governance* and ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance And Management*

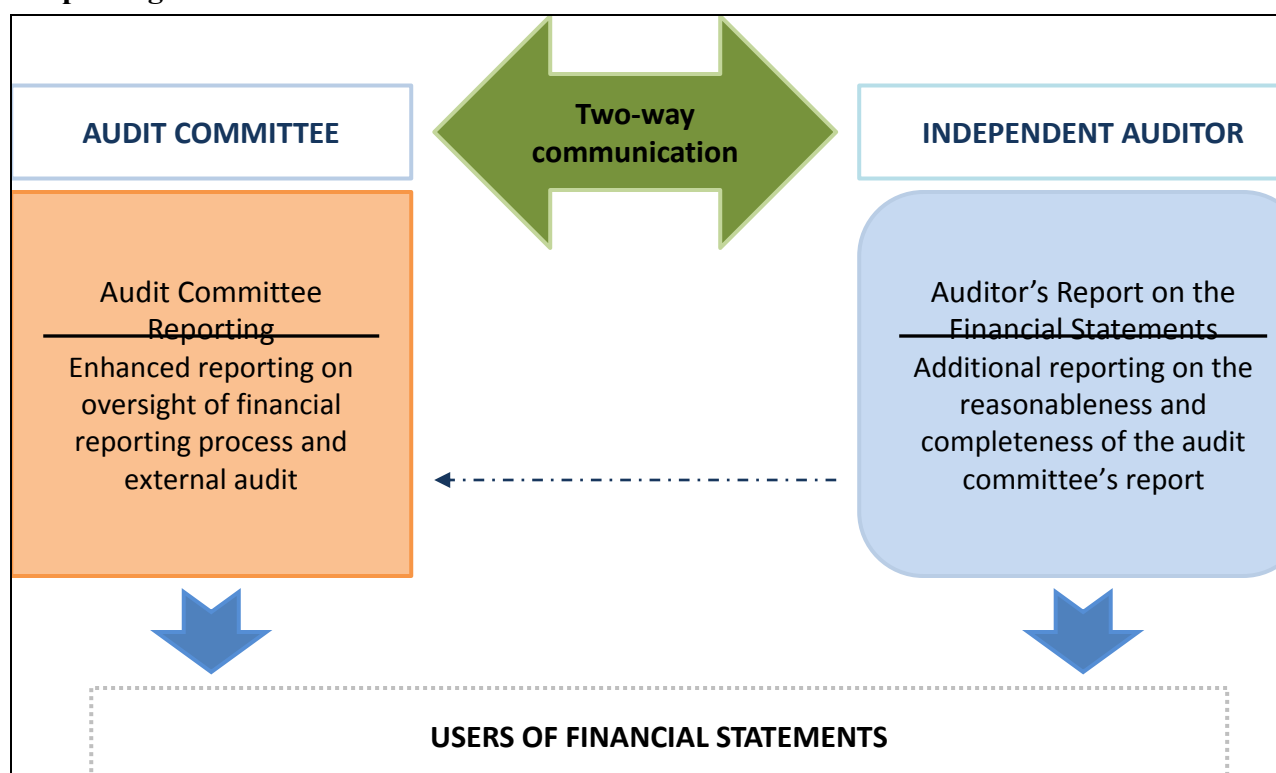
undertaken under the audit committee's formal mandate. However, in other countries, the audit committee function, and its external reporting capacities or responsibilities may differ.

77. In the UK, the audit committee's role is clearly defined as one of stewardship in relation to the interests of the entity's shareholders. This establishes a clear line of responsibility between the entity's shareholders and the audit committee for proper communication of information about the entity relevant to shareholders' interests.
78. In other countries, including Germany and Denmark, national law requires formal reporting between the independent auditor and those charged with governance. This additional reporting, whereby the auditor provides more extensive information about the audit process and findings, has been suggested as a model of enhanced auditor reporting.
79. This detailed type of reporting by the auditor is currently only for the use of those charged with governance of the entity. However, because such reports provide insights about the entity, the audited financial statements, and the audit process, it has been suggested that it would be beneficial for some of this information to be shared more publicly with users of financial statements, as a way of addressing the information gap. In any event, some hold the view that this type of detailed reporting could be useful in helping those charged with governance fulfill their oversight responsibilities, regardless of whether a jurisdiction may require reporting by those charged with governance.
80. Even though different corporate governance models are in place in different jurisdictions, the existing interaction between those charged with governance of an entity and the auditor offers a sound platform for exploring further enhancement of corporate governance reporting.

An Enhanced Role for Those Charged with Governance

81. An enhanced model of corporate governance reporting could provide a platform for further reporting to users of audited financial statements, for example:
 - (a) Reporting by those charged with governance (or the audit committee) to the entity's shareholders (or other external stakeholders); in conjunction with
 - (b) Expanded reporting by the independent auditor on the report provided by those charged with governance.
82. **Diagram 3** below shows how an enhanced model of corporate governance reporting might work. It builds on the existing two-way communication and dialogue about the audit between the audit committee (or others charged with governance) and the independent auditor. Under this enhanced model, the audit committee would issue a report to users of financial statements with information about its oversight of the financial reporting process and the audit. As discussed above, a more detailed report from the auditor about the audit scope and findings could serve as useful input to the audit committee report.

Diagram 3: An Enhanced Role for Those Charged with Governance Regarding Financial Reporting and the External Audit



83. As part of this corporate governance reporting model, the auditor could include an additional communication in the auditor's report on the financial statements addressing the reasonableness and completeness of the audit committee's report, at least in relation to the description of the key interactions with the external auditor. Alternatively, the auditor could separately provide an assurance report on the reasonableness and completeness of the audit committee report.
84. In the UK, the Financial Reporting Council (FRC) has proposed for discussion a model with these characteristics. The FRC's proposal incorporates the following elements:
 - (a) The external auditor would provide an enhanced report to the audit committee setting out the information necessary for the audit committee to understand fully the factors the auditor has relied upon in exercising professional judgment in the course of the audit and in reaching the audit opinion;
 - (b) The audit committee would report publicly, explaining how it has discharged its responsibility for the integrity of the entity's annual report and for the oversight of the external audit process, including any matters of material significance identified by the auditors in their report to the audit committee that are not addressed elsewhere in the annual report; and
 - (c) The external auditor would report on the completeness and reasonableness of the audit committee's report.

85. Adopting such a model would reinforce the entity's responsibility for full and proper disclosure to shareholders and other users as a matter of good corporate governance, without fundamentally changing the role of the independent auditor.
86. It is recognized that differences in national corporate governance models may mean that it would not always be practicable to use this model, for example when the responsibility of those charged with governance does not extend to reporting to shareholders, or when there is a lack of confidence in the quality of the audit committee function, or in its ability to act in the interests of shareholders.

Questions

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

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

87. Beyond the calls from users for change to the auditor's report, there has also been discussion about the continued relevance of the current financial reporting model, the financial statement audit, and the role of the independent auditor. Some have suggested that the expectations gap or information gap will persist in the absence of the auditor being required to be involved with, or provide assurance on, other types of subject matter that is deemed to be of value to management of the entity as well as external users.¹²
88. Some examples include information about the entity's:
 - Corporate governance arrangements.
 - Business model, including the sustainability thereof.
 - Enterprise-wide risk management.
 - Internal controls and financial reporting processes.
 - Key performance indicators.

¹² For example, the recently released Financial Stability Board (FSB) Report, *Thematic Review on Risk Disclosure Practices* reviewed financial institutions' public disclosures of risk exposures and actions undertaken by FSB member jurisdictions and private sector participants to enhance disclosure practices. It also examined how disclosure practices at financial institutions have changed, areas where implementation has proven to be challenging, and initiatives that have been taken to improve disclosures. The report sets out some initial considerations on the principles for disclosures about specific risks that have emerged and that require enhanced disclosure.

89. Any decision to extend the scope of the audit is likely to be a matter for national law or regulations and national auditing standards will need to be developed accordingly.
90. The IAASB is pursuing a number of initiatives regarding assurance engagements on non-financial statement subject matter as part of its current standard-setting work program. If responses to this consultation provide strong indication that development of a model of assurance to address these types of information disclosures has a high priority among the IAASB's stakeholders, the IAASB would consider this feedback as important input for its deliberations about its future strategy for 2012–2014.¹³

Questions

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

IV. Implications of Change and Potential Implementation Challenges

91. The IAASB aims to understand respondents' views about the possible effects and implications of the range of options for change explored in this Consultation Paper. Of particular interest is the likely impact on the information gap, and the related costs, and whether there would be any positive or negative effects in relation to other matters, such as:
 - (a) The respective roles, responsibilities and liability of management, those charged with governance, auditors and users in relation to the financial reporting process;
 - (b) Behaviors of these parties in performing those roles or responsibilities, and their interactions with each other;
 - (c) Users' ability to understand corporate reporting; and
 - (d) The perceived quality and value of the audit.

Implications of Change

Respective Roles, Responsibility and Liability

92. Some options for change may have implications on the boundaries between the respective roles and responsibilities of management and those charged with governance, and the auditor with respect to the financial reporting process.
93. For example, some of the options may:
 - Involve the auditor originating information about the entity for users that would affect the current division of responsibility between the entity and its independent auditor.

¹³ The IAASB is currently undertaking an extensive public consultation on its future strategy and work program through its Consultation Paper, *Proposed IAASB Strategy and Work Program for 2012–2014* (available at: www.ifac.org/Guidance/EXD-Download.php?EDFID=00357), released in January 2011. The Consultation Paper suggests priority activities for the IAASB during 2012–2014, including supporting the development of new and emerging assurance services.

- Change the role played by those charged with governance, which could have implications for the skills needed, and the level of involvement by those charged with governance.
 - Affect the way users read, understand and use the additional information provided.
 - Change the competencies needed to perform additional reporting, for example auditors' competencies needed to be able to report on some narrative information, or to report on some types of non-financial subject matter.
94. There also may be changes in liability exposures for management, those charged with governance and auditors associated with some of the options.

Behaviors of Parties Performing Those Roles and Responsibilities

95. Some options for change may affect the nature or extent of the interactions between the different parties in the financial reporting process. For example, additional auditor commentary on critical accounting estimates in the entity's financial statements may affect the level of interaction between the auditor and those charged with governance and management when reviewing and discussing how those estimates are presented in the financial statements. This may affect their behavior, either positively or negatively, and in turn potentially affect the quality of financial reporting and audit quality.

Users' Ability to Read, Understand and Use Additional Information Provided

96. Users' ability to better understand corporate reporting, and therefore make more informed decisions, may be enhanced by having more relevant information about the entity, including information about critical issues facing the entity. However, some hold the view that additional information may confuse, rather than improve, users' understanding of the entity by adding to the often already complex and comprehensive array of information users receive. A key goal is to improve the quality of information provided to users rather than simply the quantity.

Perceived Quality and Value of the Audit

97. Expanding the auditor's reporting responsibilities, either internally to those charged with governance or externally, may for example increase the auditor's focus on issues critical to users' understanding of the entity. This may in turn enhance perceptions of audit quality.
98. Some have suggested that additional reporting by the auditor without a change in the current audit scope should not significantly increase costs. However, others believe that such additional reporting would, of itself, increase costs. That has led some to suggest that if the auditor is not able to recover any increased costs through their fees, it may create pressure to reduce work in other areas, which could have a detrimental effect on audit quality.
99. Some have cautioned that additional reporting in the form of auditor commentary may widen the expectations gap, as may the option to change the structure and format of the auditor's report, as discussed in Section III. On the other hand, greater transparency about the audit performed may not only enhance users' understanding of the audited financial statements, but also affect their perceptions of the quality and value of the audit. For

example, if users are informed about areas of the audited financial statements that required exercise of significant auditor judgment, they presumably would have a better understanding of the auditor's opinion on the financial statements as a whole.

Questions

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.
17. 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.
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?
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 report?

Appendix 1

Illustrations of Possible Options for Change to the Standard Auditor's Report (Refer to Section III of this Consultation Paper)

Illustration 1: Current Standard Auditor's Report

INDEPENDENT AUDITOR'S REPORT	
[Appropriate Addressee]	
Report on the Financial Statements	
We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.	
<i>Management's Responsibility for the Financial Statements</i>	
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.	
<i>Auditor's Responsibility</i>	
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.	
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.	
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.	
<i>Opinion</i>	
In our opinion, the financial statements present fairly, in all material respects, (or <i>give a true and fair view of</i>) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.	
<i>Emphasis of Matter</i>	
We draw attention to Note X to the financial statements, which describes the uncertainty related to [describe matter(s)]. Our opinion is not qualified in respect of this matter.	
Report on Other Legal and Regulatory Requirements	
[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]	
[Auditor's signature]	
[Date of the auditor's report]	
[Auditor's address]	

Possible Effects of Options for Change

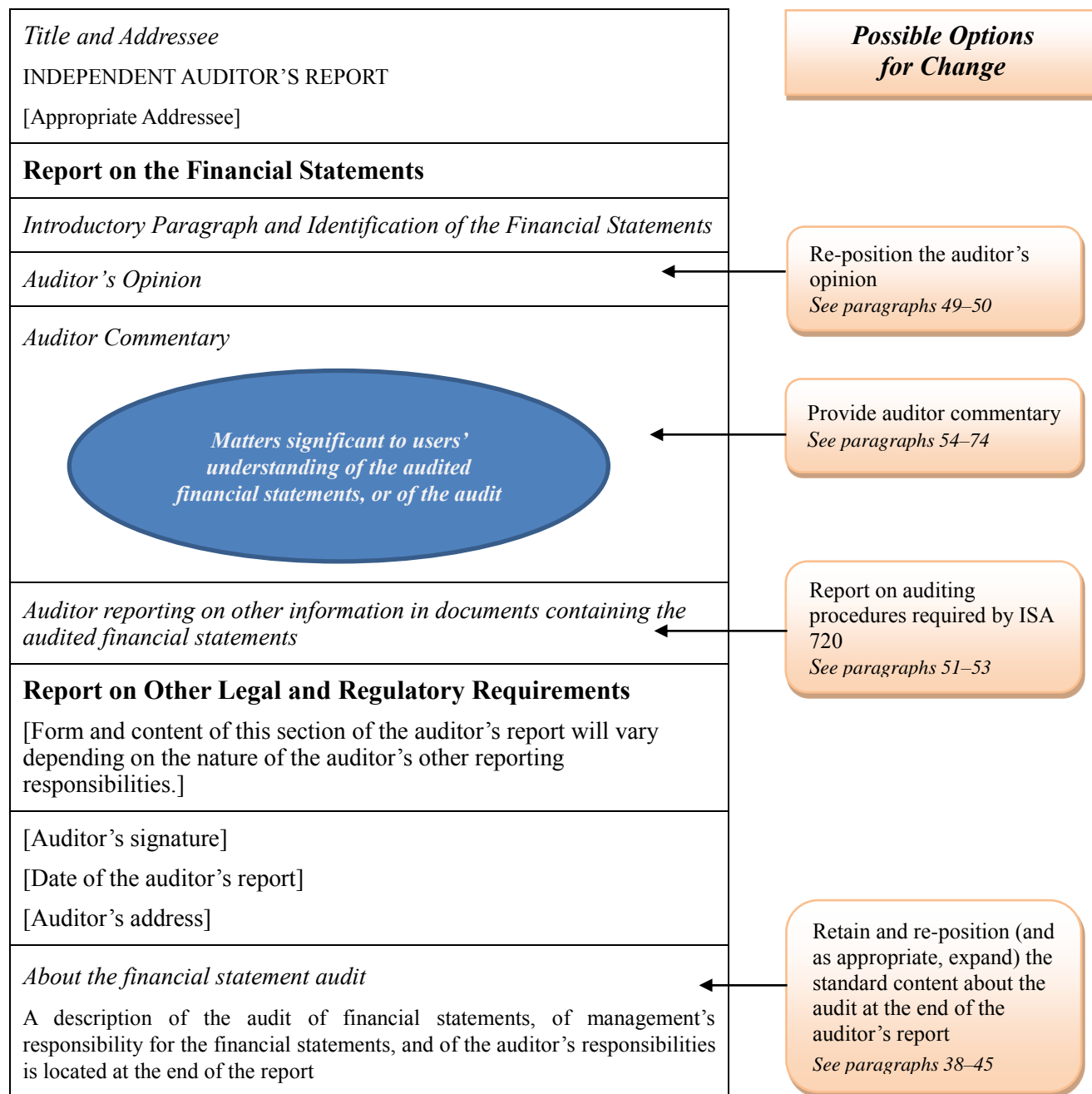
Remove or re-locate (and, as appropriate, expand)
See paragraphs 38–45.

Re-position opinion, e.g. to place it first in the report
See paragraphs 49–50

Reporting on audit procedures required by ISA 720
See paragraphs 51–53

Increased use of emphasis of matter or other matter paragraphs, or other auditor commentary
See paragraphs 54–74

Illustration 2: Possible Enhanced Format, Structure and Content for the Standard Auditor's Report



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²² pcaobus.org/News/Events/Documents/02162005_SAGMeeting/Auditors%20Reporting%20Model.pdf
pcaobus.org/News/Events/Pages/03222011_OpenBoardMeeting.aspx

²³ www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/publications/

²⁴ Available from the Australian Auditing and Assurance Standards Board: www.auasb.gov.au/Home.aspx

²⁵ www.treas.gov/offices/domestic-finance/acap/index.shtml, www.ustreas.gov/offices/domestic-finance/acap/docs/final-report.pdf.

List of Questions in this Consultation Paper

Issues Identified

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?
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?
3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

Exploring Options for Change

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

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

B. Other Information in Documents Containing Audited Financial Statements

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?

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

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.

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.
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.

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

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

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

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

Implications of Change and Potential Implementation Challenges

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.
17. 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.
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?
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 report?



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