

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

11 October 2012

Dear Mr. Gunn:

Invitation to Comment: Improving the Auditor's Report

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the *Invitation to Comment: Improving the Auditor's Report* (ITC), issued by the International Auditing and Assurance Standards Board (IAASB).

The IAASB's suggested improvements in the ITC seek to address the question of what *auditors* can do, through the auditor's report, to help address the requests by investors and other stakeholders for more relevant and decision-useful information about the entity, the financial statements and the audit process itself. While other participants in the financial reporting process also have a role to play in responding to the needs of investors and other users, the IAASB's ITC is an opportunity to enhance the relevance of the auditor's report in the public interest. We strongly favor meaningful change to increase the usefulness and informational value of the auditor's report, and, therefore, support many of the suggested improvements in the ITC.

We commend the IAASB for its efforts to offer suggestions for improvement to the auditor's report, and for developing a thought-provoking consultation document. We recognize, however, these suggested improvements likely will come with some challenges to implementation, including cost. Therefore, we encourage the IAASB, through its robust due process, to continue the outreach and dialogue with all stakeholders to gain as full an understanding as possible of the relative value and impediments as it continues its efforts toward revising the auditor reporting standards.

In the context of the current environment and in evaluating the possible changes to the auditor's report discussed in the ITC, our comments in this letter are guided by the following key considerations:

- Changes to the auditor's report should be viewed by users and other stakeholders as both meaningful and a substantive improvement from current practice.
- The separate responsibilities of management, those charged with governance and the auditor should be preserved.
- Additional information provided by the auditor should serve to further inform, and not confuse, investors and other users.

Accordingly, it may be necessary to engage in further dialogue with all stakeholders to ensure any suggested changes can be reasonably and practically implemented and are both valuable and understandable for users.

We believe the following suggested improvements would be a meaningful step forward in the public interest:

- The concept of auditor commentary, in particular highlighting matters that are likely to be most important to users' understanding of the financial statements and drawing attention to management's disclosures of those matters (please refer to our responses to Questions 3 through 7)
- Statements by the auditor regarding going concern under a holistic approach that includes enhanced disclosures by management with respect to going concern issues (please refer to our responses to Questions 8 and 9)
- The description of the auditor's responsibilities for other information and the statement as to whether any material inconsistencies were identified in reading the related other information (please refer to our response to Question 10)
- Enhanced descriptions of the respective responsibilities of management, those charged with governance, and the auditor (please refer to our response to Question 11)
- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report (please refer to our response to Question 15)

As described in paragraph 21 of the ITC, investors and other users indicate that consistency and comparability in auditors' reports are important features in auditor reporting. Despite the value of consistency, we recognize that differing legal, regulatory and reporting frameworks in jurisdictions may present challenges in achieving consistency, and that some flexibility will need to be provided. To that end, we support the "building blocks" approach suggested by the IAASB as a mechanism to accommodate the varying needs of national reporting regimes and national standard setters. However, we believe that jurisdictions should tailor auditor's reports only to the extent necessary to adhere to local reporting requirements or practices, and that any non-ISA elements in the auditor's reports are clearly distinguished to allow for comparability across jurisdictions.

We recognize the suggested improvements outlined in the ITC were raised after substantive consultation with, or outreach to, various stakeholders. We further recognize that users' needs and perceptions of the potential value in many of the suggested improvements to the auditor's report vary not only by type of entity, but by jurisdiction. Due to the different perceptions of value across jurisdictions coupled with the different legal and regulatory environments that exist, we have concerns about the following suggested improvements set forth in the ITC:

- Disclosure of the name of the engagement partner (please refer to our response to Question 12)
- Naming of other auditors involved in the audit; however, in the interest of transparency, some high-level indication of the relative participation of other auditors may be possible (please refer to our response to Question 13)

Responses to the specific questions in the ITC for which the IAASB is seeking feedback are set out below. Our views are more fully described in the responses below.

Overall Considerations

1. *Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of the possible impediments (including costs)? Why or why not?*

On balance, we believe the IAASB's suggested improvements enhance the relevance and informational value of the auditor's report. In particular, we believe that the concept of auditor commentary can provide enhanced value to users as described further in our response to Question 3.

We commend the IAASB for its consideration of values and impediments, as explained in Appendix 1 of the ITC, when suggesting improvements to the auditor's report. We recognize, however, that the value of such changes to users will likely vary based on the nature of what is ultimately reflected in the revised ISAs. Similarly, impediments, including costs, associated with such changes will depend on their nature and how they are implemented in practice. Therefore, we support many of the suggested improvements but recognize the IAASB will continue to obtain feedback from all stakeholders as part of its due process in revising the auditing standards. In our view, it will be important to obtain input not only on the value of certain alternatives but on the related impediments including implementation challenges. This approach to "test drive" certain options and examples with stakeholders may prove useful given the IAASB's aggressive and accelerated timetable to develop revised standards for auditor reporting.

2. *Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.*

With respect to the auditor's report itself, we agree with the direction taken by the IAASB in the ITC and recommend no other new suggestions or differing considerations to improve the auditor's report. We have provided specific comments and recommendations on certain elements of the suggested improvements included in the ITC. We encourage the IAASB to continue to monitor the efforts of other standard setters and regulators that are also exploring changes to the auditor reporting model. We also encourage the IAASB to explore further whether the concerns of users may be met in other ways beyond the auditor's report.

Various standard setters and regulators around the world have initiatives underway intended to address calls for more relevant disclosures and other mechanisms to help users better understand increasingly lengthy and complex financial reports. We specifically encourage the IAASB to collaborate with the International Accounting Standards Board (IASB) on improvements or clarifications that will help to improve the overall quality and understandability of financial reporting, and the audits of financial statements. In this regard, refer to our responses to Questions 8 and 9 for additional suggestions for collaboration with the IASB related to the topic of going concern reporting.

An additional observation specific to the suggested improvements included in this ITC is that they are limited to audits of annual financial statements. It is unclear how certain of the suggested additional requirements for annual financial statements would affect auditor reporting responsibilities for interim reviews (i.e., those conducted in accordance with ISRE 2410¹), such

¹ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

as providing updates on certain information included in the annual financial statements (e.g., going concern, auditor commentary). We recommend that the IAASB consider the effect on interim reporting as it pursues revisions to the ISAs for the changes to the auditor's report.

3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not?

We support the concept of auditor commentary and believe auditors can provide enhanced value to users by highlighting matters that are likely to be most important to users' understanding of the financial statements and drawing attention to management's disclosures of those matters. The current "pass/fail" opinion provides users a concise conclusion as to whether the financial statements, taken as a whole, are presented fairly in accordance with the applicable financial reporting framework. Although users value the opinion on the financial statements as a whole, many also have stated strongly that additional contextual information about important matters would be helpful in their decision-making and would increase the overall informational value of the auditor's report.

The concept of auditor commentary has considerable merit and there are various ways in which it could be operationalized, likely with differing degrees of value to users and implementation challenges. As discussed in the ITC, users have different views regarding the type of information that might be most valuable. For these reasons, we encourage the IAASB to continue its outreach in connection with its revisions to the auditing standards to determine which improvements are likely to have the greatest benefit to users.

4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary?

We believe a principles-based approach that would require auditor commentary, but not be overly prescriptive in its nature and extent, is most appropriate for an international auditing standard. As part of this principles-based approach, we believe the ISAs should provide high-level criteria or principles, in addition to an overall objective, with supporting guidance and considerations to assist auditors in making informed judgments on the matters to include in auditor commentary. This approach also would provide flexibility to accommodate certain jurisdictions for which additional information is required in the auditor's report based on law or regulation, as well as allow national standard setters and others the ability to specify criteria based on the needs of users in their jurisdiction.

We believe articulating an objective for auditor commentary, such as that described in paragraph 39 of the ITC, is useful as part of a broader decision-making framework for auditors. However, we believe having more specific criteria or guidance would help auditors make more consistent judgments on matters to include in auditor commentary, and also would help to limit the number of matters included to a reasonable number. To that end, we agree that the IAASB should not specify a minimum number of matters. Conversely, a long list of matters would be inconsistent with the overall objective of highlighting matters that are "most important" and therefore such criteria or guidance would be useful.

We believe the following matters are an appropriate starting point for criteria for the auditor to consider in determining what matters to include in auditor commentary:

- Areas of significant management judgment (entity's accounting practices including accounting policies, accounting estimates and financial statement disclosures)
- Significant or unusual transactions
- Material risks and uncertainties
- Information about the structure of the entity and its related parties that is significant to understanding assertions made in the financial statements
- Other matters that in the auditor's judgment may be important to a user's understanding of the financial statements (e.g., new or emerging accounting matters or policies)
- Matters of audit significance – difficult or contentious matters, other issues of significance related to the audit scope or strategy

We also believe the auditor should specifically consider significant risks identified in conjunction with ISA 315² and any other matters that were the subject of substantive discussions with those charged with governance and are not included in the list above.

We recommend the IAASB provide guidance to promote consistency and to aid the auditor in making a determination as to which of the matters meeting the above criteria rise to the level of "most important" and therefore should be included in auditor commentary. We believe a key consideration in this regard should be whether the matters were subject to significant attention by those charged with governance. Other important considerations might include the nature of the audit effort undertaken (e.g., extent of partner involvement), areas of significant change, or matters that were unique to the company or the industry during the period.

5. *Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary?*

We note that the examples of auditor commentary included in the illustrative auditor's report in the ITC are intended to illustrate how the concept could be applied in practice, and indicate the various ways in which auditor commentary could be presented. These examples are indicative of the different views of users about which form of commentary may have the most value.

Accordingly, we believe certain elements of the illustrative examples in the ITC are appropriate and aligned with our views on the nature of the information that can best be highlighted in auditor commentary. However, we believe that certain examples, or elements of them, that, for example, describe audit procedures and related results, would not be appropriate. Our views are more fully described below.

Additional paragraphs in the auditor's report to highlight matters that are most important

We support including additional paragraphs in the auditor's report to highlight matters that are likely to be most important to users and draw attention to management's disclosures about those matters. We believe this approach would provide meaningful value to users for the following reasons:

² ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

- These additional paragraphs, particularly if required to be included based on specified criteria or guidance, would focus users' attention on the disclosure of such matters by management. This would send a signal to users that these matters should be important to their decision-making because they were the subject of significant audit attention and likely also the subject of substantive conversations between the auditor and those charged with governance.
- By virtue of users more closely reviewing and scrutinizing the disclosures about these matters in the financial statements, management may devote greater attention to their development, which may lead to an overall improvement in the quality of financial reporting.
- This additional focus on the disclosures of these matters may result in greater attention to them by those charged with governance and more robust discussions with management about the content or completeness of the disclosures. This additional focus may also extend to other information provided about the matters elsewhere in the financial report (e.g., management commentary), which could further improve financial reporting quality overall.
- The inclusion of these additional paragraphs would help to improve users' understanding of the financial statements by highlighting matters for which users may wish to devote greater attention. Although we understand that some persons may not agree that it is the auditor's responsibility to provide such a "roadmap," we point to the statement in paragraph 36 of the ITC that some users have indicated that there would be considerable value in this approach.
- Finally, this approach preserves the separate responsibility of management to provide information about the entity and the financial statements.

We also believe auditor commentary should do more than simply "point" to disclosures in the financial statements. Therefore, we believe the auditor should provide an indication of why the auditor believes the matter is important to users' understanding of the audited financial statements. In our view, if the objective of the additional paragraphs is to highlight and emphasize matters that are likely to be most important to users, then the auditor should include wording that explains why the auditor considered the matter to be important. Although this may be accomplished by providing standardized wording in a preamble to auditor commentary that briefly describes the criteria used by the auditor in deciding which matters to include (refer to our response to Question 4), we believe users would benefit from knowing which aspects of the criteria apply to each matter highlighted in auditor commentary.

We believe it is possible to provide an indication of why the auditor believes a matter is important to users without providing original information about the entity. As noted above, this may be a reference to elements of the criteria used by the auditor in making the judgment to highlight the matter, and it may also include wording that paraphrases the related management disclosure. We acknowledge that the IAASB may need to provide guidance for the auditor in this regard. In addition, the IAASB should consider further input from users and make sure that any approach reflected in the ISAs emphasizes the need to preserve the respective responsibilities of management and the auditor.

Providing information in auditor commentary about the audit

We understand that some investors and other users are asking for the auditor to provide more information about how the audit was conducted, (i.e., key judgments made by the auditor in

planning, scoping and executing the audit). Some users also are asking for information about audit procedures performed in response to key areas of risk, and the auditor's findings in those areas. However, we also are aware that user views may be mixed regarding the need for, and value of, this type of information. In our view, it would be difficult to provide this type of information in a concise way that would make it understandable to users, as explained further below.

We do not believe it is appropriate for the auditor to describe specific procedures performed or related results in auditor commentary. It would likely be difficult to provide a concise summary of the numerous procedures an auditor performs to address complex and/or highly judgmental areas of the audit and how these procedures relate to the auditor's evaluation of the financial statements taken as a whole. We have a further concern that users may infer that the auditor is providing separate, different or a higher level of, assurance on those matters, which would result in confusion about the auditor's opinion on the financial statements as a whole. We also do not believe it is appropriate to refer in auditor commentary to information included outside the financial statements (i.e., other information as defined by ISA 720³) as the auditor has not expressed an opinion on such other information.

Other suggestions and recommendations

The illustrative auditor's report in the ITC provides standard language to introduce the separate auditor commentary section. We support this type of language as we believe it provides appropriate context to users. However, we recommend expanding this language to include the following additional concepts:

- Matters included in auditor commentary do not represent a complete list of all areas addressed in the audit
- Matters included in auditor commentary may change from year to year
- Explicit reference should be made that auditor commentary is not a substitute for reading the financial statements and auditor commentary should be read in conjunction with the financial statements.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs?

As more fully described in our response to Question 5, we believe the inclusion of auditor commentary has several positive implications and would provide meaningful value to users as it would enhance the relevance of the auditor's report and thereby improve the overall quality of financial reporting. The nature of auditor commentary will influence the financial reporting process. Generally, the more extensive and subjective auditor commentary is required to be, the greater the time and effort that may be expected in the preparation, internal review and approval of the auditor's report, and in discussing its contents with management and those charged with governance. The larger the increase in hours, the greater the effect on cost.

If auditor commentary is limited to required use of emphasis paragraphs that refer to management's disclosures, we believe the amount of additional audit effort and cost would be relatively low. However, even in this scenario, we can envision additional discussions with

³ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

management and those charged with governance regarding the matters to be included. If the auditor includes an indication as to why each matter has been included in auditor commentary (as suggested in our response to Question 5), we believe the audit effort and cost would be somewhat greater, but nevertheless manageable.

If auditor commentary were to include highly summarized information about audit procedures performed or conclusions reached, we believe it would be very difficult to produce in a manner that would be meaningful and understandable to users, especially on a consistent and timely basis. It would be difficult for the auditor to provide the right degree of context to each matter, particularly in a way that would not provide original information about the entity or the financial statements or call into question the auditor's opinion on the financial statements as a whole (also refer to our response to Question 5). For these reasons, we are not supportive of including information about audit procedures and related results in auditor commentary.

Depending on the nature and extent of auditor commentary, audit firms would need to develop associated quality control processes to review the auditor's report prior to its release, including the possibility of legal reviews. These processes would take time, including communications with management and those charged with governance, which could place strain on reporting timetables that are largely fixed. Moreover, auditor commentary may have an impact on legal liability, particularly in certain jurisdictions.

- 7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided?*

Please refer to our response to Question 18.

Going Concern/Other Information

- 8. What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not?*

We are supportive of the IAASB's efforts to consider improvements to the auditor's report with respect to going concern. Given the increased focus on the assessment of going concern and related disclosures, we believe that additional information in this area will be of value to users.

We acknowledge that the suggestions in the ITC for the report to include the auditor's conclusion that management's use of the going concern assumption is appropriate, as well as a statement as to whether material uncertainties related to going concern have been identified, are consistent with the objectives of the auditor, and the related auditor work effort, under ISA 570⁴. Accordingly, we agree that the inclusion of these statements would essentially make explicit what is already required under the auditing standards. Although we are generally not opposed to the auditor making statements such as these, we believe that a holistic approach to addressing going concern matters should be considered as more fully described below.

⁴ ISA 570, *Going Concern*

Ongoing initiatives to improve reporting about going concern

As noted in paragraph 33 of the ITC, a number of initiatives are in place around the world intended to explore enhancements to reporting about going concern aimed at providing better and timelier information to users regarding potential going concern issues. In addition, as evidenced by comments at the recent IAASB public roundtables, there appears to be a lack of clarity about the meaning of certain terminology used in current reporting, such as whether a conclusion on the "appropriateness of the use of the going concern assumption" is the same as the "ability to continue as going concern." In addition, the concepts of "material uncertainty" and "significant doubt" are not well understood by users, and can be subject to differing interpretations by both preparers and auditors. Moreover, there appears to be an expectations gap between what users think auditors should warn of in respect of going concern, and what auditors are required to do under ISA 570.

Because of the lack of clarity about the meaning of certain terminology, introducing a requirement for the auditor to include affirmative statements about going concern in the auditor's report could result in misunderstanding or confusion by users. For example, users may misinterpret a statement about the appropriateness of management's use of the going concern assumption as conveying more than simply a conclusion on the basis of accounting used to prepare the financial statements. For these reasons, we believe a holistic approach that includes a comprehensive re-assessment of the requirements for reporting on going concern by both preparers and auditors, including clarifications to terminology, would lead to significant enhancements to the usefulness of going concern information for users. At the same time, such an approach would help mitigate the risk that auditor reporting could be misinterpreted by users or result in widening the current expectations gap.

A holistic approach to going concern

As part of the process to address these areas, we believe further enhancements to going concern reporting could be considered. For example, further guidance regarding the point at which an uncertainty about going concern becomes material and when doubt becomes significant would be very helpful. In addition, the current "significant doubt" threshold could be replaced with a requirement for preparers to make specific disclosures about events or conditions identified and why they believe they do not rise to the level of a material uncertainty. The auditor could then be required to make an explicit statement about that disclosure. We believe that consideration of these areas could result in helpful improvements in the execution of the responsibilities of both preparers and auditors, as well as increase the utility of the related reporting to users of the financial statements. Accordingly, we suggest the IAASB work closely with the IASB to consider improvements in this area.

Additional comments on suggested improvements to auditor reporting

We believe that any enhancements to going concern reporting by the auditor should preserve the respective responsibilities of management, those charged with governance and the auditor. As such, we believe management's responsibilities related to going concern are fundamental to the auditor's ability to include statements in the auditor's report, such as those suggested in the ITC. Accordingly, we believe that the related suggested additions to the management's responsibility section also provide fundamental context to the auditor's reporting.

In addition, when considering improvements to reporting on going concern, we note that the requirements and terminology in ISA 570 are consistent with the requirements and definitions in

IFRS (specifically IAS 1⁵). As such, there may be some difficulties with the auditor making the statements suggested in the ITC in situations where the applicable financial reporting framework differs from IAS 1. We encourage the IAASB to give this further consideration and provide guidance in this regard.

9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified?

As more fully described in our response to Question 5, we do not believe it is appropriate for the auditor to describe specific procedures performed or related results in the auditor's report. Moreover, IFRS (and many other financial reporting frameworks) do not require management to make specific disclosures about conditions or events that have been identified and evaluated under IAS 1 in the case when management (and the auditor) concludes that no material uncertainties exist. Therefore, the auditor including additional information about the conditions and events, and the evaluation thereof, would likely result in the auditor providing original information about the entity, which we do not believe is an appropriate role of the auditor.

As discussed in our response to Question 8, we support a more holistic approach to address going concern reporting, which could include exploring whether preparers should make specific disclosures about events or conditions identified and why they believe they do not rise to the level of a material uncertainty. With expanded disclosures by management, the auditor may be able to reference these disclosures in auditor commentary without providing original information about the entity.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

We support the suggested auditor statement that no material inconsistencies have been identified based on the auditor's reading of the other information. We also support the suggestions to identify clearly the auditor's responsibilities under ISA 720 and the specific other information that has been read, as we believe this context is very important to not widening the expectations gap.

We recognize a separate project to revise ISA 720 is in process and understand that the reporting statements will likely be updated based on the revised standard. We encourage the IAASB to continue to seek further input on the value and impediments related to auditor reporting on other information in connection with the deliberations on the revisions to ISA 720 through the due process of the separate project.

Clarifications and Transparency

11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities?

⁵ IAS 1, *Presentation of Financial Statements*

We believe the enhanced descriptions of the responsibilities of management, those charged with governance and the auditor will improve the users' understanding of the role of the auditor and the nature of audit work. Although the suggested language adds to the length of the auditor's report, we believe the descriptions better articulate the responsibilities of management, those charged with governance and the auditor. With the introduction of new elements of the auditor's report, specifically auditor commentary, it is important to have a comprehensive description of the auditor's responsibilities to avoid unintended consequences of widening the expectations gap.

In particular, we support the IAASB's inclusion in the expanded description of the auditor's responsibility a reference to the existing requirement in ISA 700⁶ for the auditor to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. This is an important requirement for the auditor in forming an opinion on the financial statements as a whole when the financial statements are prepared in accordance with a fair presentation framework. We believe that emphasizing the importance of this "stand back" requirement may help to further support the overall objective of improving the overall quality of financial statement disclosures. We also note that improving the quality of financial statement disclosures is an objective cited by some users who support the concept of auditor commentary. Therefore, the IAASB may wish to explore a link between the "stand back" requirement and auditor commentary, perhaps to help further emphasize that the auditor's opinion relates to the financial statements and disclosures as a whole, and not to individual matters addressed in auditor commentary.

We have no suggestions for other improvements to the description of the auditor's responsibilities. Assuming that there, however, may be further revisions based on feedback that the IAASB receives, we encourage the IAASB to appropriately manage the length. If much more information is requested, it may be best distributed through other means, such as through educational efforts to investors and other users of the financial statements about the audit process.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

As described in paragraph 72 of the ITC, we understand identification of the engagement partner may be in the public interest. We also acknowledge a requirement for the identification and/or signature of the partner has existed in many jurisdictions for some time.

However, the legal and regulatory environment as well as cultural norms must be considered when developing international standards. There are significant differences in the environments across jurisdictions, and the risks of including such a disclosure may vary greatly. Therefore, in order to accommodate these differences, we believe the disclosure of the name of the engagement partner would be better addressed by national standard setters.

⁶ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary?

We believe it is in the public interest for users to know who is responsible for the group audit opinion, and ISA 600⁷ clearly states that the group auditor has sole responsibility for the direction, supervision and performance of the group audit. We strongly support the sole responsibility principle in ISA 600 and therefore do not support the disclosure of the names of other auditors involved in the audit.

However, we acknowledge that it may improve transparency about the audit process to provide users with an indication of the extent to which other auditors were involved. We would not object to the type of disclosure in the example provided by the IAASB (i.e., a high-level indicator of the relative participation of affiliated and non-affiliated firms in a group audit), if such a disclosure would be of meaningful value to users.

If the IAASB proceeds with a standard disclosure on other auditors, we believe that such a disclosure should be in a separate section of the auditor's report (with a separate sub-heading) and not part of auditor commentary. We also suggest that preamble wording be included to re-emphasize that the group auditor is solely responsible for the opinion on the group financial statements.

14. What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report?

As more fully discussed in our response to Question 11, we believe the enhanced descriptions of the responsibilities of management, those charged with governance, and the auditor are valuable improvements to the auditor's report. It is necessary for the users of the financial statements to read a complete auditor's report to comprehend fully the role of the auditor and the nature of the audit work. This will be especially important in the initial periods of implementation of the revised wording. Allowing this standardized material to be relocated to a website of the appropriate authority may diminish the importance of these statements. Further, an auditor's report that is not self-standing may have the unintended consequences of widening the expectations gap. Accordingly, we believe that the ISAs should not introduce an explicit allowance for relocation as part of the revisions to ISA 700.

Form and Structure

15. What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users?

We support placing the auditor's opinion and auditor commentary toward the beginning of the report. Indeed, responses to the May 2011 consultation indicate strong support for making the auditor's opinion more prominent within the auditor's report as it is considered the most valuable

⁷ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

information. The suggested structure of opinion first, followed by entity-specific information, and then followed by standardized language on the responsibilities of management, those charged with governance and the auditor provides appropriate ordering of information that is most important to the user.

Please refer to our response to Question 13 with respect to our recommendation on placement of the involvement of other auditor disclosure, if it is determined that such a disclosure is required.

16. What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used?

Investors and other users indicate that consistency and comparability in auditors' reports are important features in auditor reporting. Despite the value of consistency, we recognize that differing legal, regulatory and reporting frameworks in jurisdictions may present challenges in achieving consistency, and that some flexibility will need to be provided. We appreciate that consistency and flexibility may be "dueling" concepts and achieving the appropriate balance may be difficult. We believe the "building blocks" approach is a viable approach that helps to achieve comparable auditors' reports while still allowing jurisdictions the ability to further tailor the auditor's report to comply with local law or regulation or the applicable accounting and financial reporting frameworks.

We support maintaining the concept of minimum required elements, including headings, and certain content thereof, for all auditor's reports. Further, we believe that jurisdictions should tailor auditor's reports only to the extent necessary to adhere to local reporting requirements or practices, and that any non-ISA elements of the auditor's report are clearly distinguished in order to allow for comparability across jurisdictions.

17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices?

We support the IAASB recommending the ordering of items to promote a consistent structure. However, to allow for flexibility at the jurisdictional level, we suggest the only requirement is for the opinion to be the first element in the auditor's report. It may be more difficult to mandate other elements of the auditor's report, such as going concern, auditor commentary and other information as jurisdictions may have more specific requirements. For example, jurisdictions in certain markets may determine that a description of the respective responsibilities of management and the auditor are best placed in close proximity to the opinion (i.e., the beginning of the report) to provide users appropriate context.

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?

An audit performed in accordance with the ISAs should have a high level of consistency in the contents and structure of the auditor's report. With the possible exception of auditor commentary, we believe the suggested improvements are appropriate for entities of all sizes and in both the public and private sectors.

With regard to auditor commentary, the nature of auditor commentary has a direct effect on the impediments, as discussed in our response to Question 6. The level of costs and impediments, in our view, should be considered when determining for which entities auditor commentary will be required.

At a minimum, we believe auditor commentary should be required for audits of listed entities. The demand for auditor commentary has come primarily from institutional investors and analysts evaluating listed entities. We agree that auditor commentary would be valuable for certain PIEs, especially larger private banks and insurance companies and many public sector entities. However, we believe linking the requirement for auditor commentary to the PIE definition in the IESBA code⁸ may not be appropriate because of the specific regulatory contexts this definition has in certain jurisdictions. These regulatory contexts may not be consistent with the value rationale for auditor commentary. In other words, the costs of providing auditor commentary may outweigh the benefits or value for certain entities that would be included in the regulatory definition of PIE (e.g., certain employee benefit plans or not-for-profit entities).

On balance, we believe it may be appropriate for the IAASB to require auditor commentary for PIEs, but we encourage the IAASB to be further informed by national standard setters and other regulatory bodies to determine whether the IESBA definition is appropriate, or whether the determination of exactly which entities would be included as PIEs should be left entirely to national standard setters or local laws and regulations.

For audits for which auditor commentary is not required, it is appropriate that the inclusion of auditor commentary be left to the discretion of the auditor. Auditor commentary should be provided based on the needs, and possibly expectations, of the users of the financial statements. For example, if users have access to management, auditor commentary may not be necessary, unless it is otherwise prescribed (e.g., those instances that currently require an emphasis of matter or other matter paragraph). We recognize that this may be a difficult assessment for auditors to make and encourage the IAASB to provide guidance. Also, if auditor commentary is not required for all entities, the IAASB should consider measures to inform users of the criteria for auditor commentary, including appropriate indications in the auditor's report itself.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice (karen.golz@ey.com).

Yours sincerely,

Ernst + Young Global Limited

⁸ As noted in the ITC, there is no globally accepted definition of PIEs. For discussion purposes, we are assuming the definition of PIEs would be as defined in Section 290 of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).